

**UNITED STATES
RAILROAD RETIREMENT BOARD**

2004 Annual Report

For Fiscal Year Ended September 30, 2003

U.S. Railroad Retirement Board

Mission Statement

The Railroad Retirement Board's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The Railroad Retirement Board also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

In carrying out its mission, the Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The Railroad Retirement Board will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

*If you have any comments or suggestions regarding the presentation of information in this publication, please let us know. You can fax us at 312-751-7154, e-mail us at opa@rrb.gov or write us at the following address:
Office of Public Affairs, U.S. Railroad Retirement Board,
844 North Rush Street, Chicago, IL 60611-2092.*

**Visit the Railroad Retirement Board's Web Site at
www.rrb.gov**

THE REPORT IN BRIEF

Railroad retirement and unemployment insurance benefits totaling almost \$9.0 billion were paid by the Railroad Retirement Board to approximately 699,000 beneficiaries in fiscal year 2003. Financial reports issued in 2004 on the solvency of the railroad retirement and railroad unemployment insurance systems were both favorable. Total railroad retirement system assets equaled \$24.2 billion as of September 30, 2003.

Benefits and Beneficiaries

Benefits paid under the Railroad Retirement and Railroad Unemployment Insurance Acts totaled almost \$9.0 billion in the fiscal year ending September 30, 2003. Retirement and survivor benefits were paid by the Railroad Retirement Board to some 666,000 beneficiaries during the fiscal year, of whom 619,000 were on the Board's annuity rolls at the end of the year. Approximately 37,000 railroad employees were paid unemployment and/or sickness insurance benefits. Some 4,000 beneficiaries received payments under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act.

Retirement and survivor benefit payments of \$8.9 billion during the 2003 fiscal year were \$219 million more than payments in the prior year. Employee and spouse annuitants were paid over \$6.7 billion, accounting for 76 percent of the total payments. Employees received over \$3.9 billion in age annuities, \$1.7 billion in disability annuities and \$67 million in supplemental annuities, while spouses and divorced spouses received about \$1.1 billion. Survivors were paid \$2.1 billion in annuities and \$5 million in lump-sum benefits. The total number of beneficiaries who received retirement and survivor benefits declined by more than 18,000 from fiscal year 2002.

Gross unemployment and sickness benefits paid in fiscal year 2003 totaled \$132.2 million. Net benefits totaled nearly \$94.4 million after adjustment for recoveries of benefit payments, including injury settlements, some of which were made in prior years. Total gross and net benefit payments decreased by approximately \$5.2 million and \$4.2 million, respectively, from the preceding year. Gross unemployment benefits totaling \$48.4 million (\$44.3 million net) were paid to 15,300 claimants, while gross sickness benefits of \$83.8 million (\$50.1 million net) were paid to 22,900 claimants.

Financial Reports

The Board's 2004 railroad retirement financial report to Congress, which addressed the 25-year period 2004-2028, contained generally favorable information concerning railroad retirement financing. It indicated that cash-flow problems arise only under a pessimistic employment assumption and then not until calendar year 2026. However, the 2004 report indicated that the long-term stability of the system, under its current financing structure, is still dependent on future railroad employment levels, and on investment returns.

The Board's 2004 railroad unemployment insurance financial report was also generally favorable. Even as projected maximum benefit rates increase 35 percent from \$55 to \$74 from 2003 to 2014, experience-based contribution rates maintain solvency. No new loans are anticipated even under the most pessimistic assumption. The report also predicted average employer contribution rates well below the maximum throughout the projection period, although there may be a periodic resumption of the surcharge required to maintain a minimum account balance.

No increases in the tax rates provided under current law were recommended by the Board for the railroad retirement or unemployment insurance systems.

The National Railroad Retirement Investment Trust's *Annual Management Report for Fiscal Year 2003*, the Trust's first full fiscal year of operations under the Railroad Retirement and Survivors' Improvement Act of 2001, stated that, as of September 30, 2003, the market value of the Trust-managed assets had increased to \$23.0 billion, reflecting a 19.9% rate of return. Total railroad retirement system assets, including those maintained at the Treasury, were \$24.2 billion.

The 2004 railroad retirement and railroad unemployment insurance financial reports and the 2003 National Railroad Retirement Investment Trust's annual management report are reprinted at the back of this *Annual Report*.

Service

Customer Service Plan

The Board's performance remained the same or improved in fiscal year 2003, compared to the previous fiscal year, in nine of the eleven customer service workloads tracked by the agency. Even with declines in two areas, the agency still exceeded all of the customer service performance goals it had set for the year in its Annual Performance Plan.

New Internet Services

The Board recently implemented three new Internet services as part of the agency's plan to allow the railroad public to conduct its business online. The Employer Reporting System allows rail employers to electronically file information related to the

reporting of employee service and compensation data. Another new service allows rail employees to apply for unemployment benefits online. Finally, the online Retirement Planner provides employee and spouse estimates for employees who have not yet retired.

Other Developments

Preventing Identity Theft

The Board has taken various actions to prevent identity theft. Claim numbers are no longer printed on annual rate letters, and procedures for verifying the identity of individuals calling field offices have been tightened. Other practices are being reviewed.

Payroll Processing

In compliance with the e-payroll initiative, a key element of the e-government portion of the President's Management Agenda, in 2004 the Board eliminated its stand-alone employee payroll processing system and transferred this function to a payroll system operated by the General Services Administration.

Building Security and Employee Safety

The Board continued to emphasize building safety and security procedures, in accordance with guidance from the Department of Homeland Security and the Office of Personnel Management. The agency initiated a comprehensive review of its continuity of operations plans, with an emphasis on business resumption and disaster recovery of information technology capability. The Board also implemented an automated external defibrillator (AED) program at its headquarters building.

The preceding topics, as well as others, including legislation, legal rulings, public information activities and equal opportunity developments, are covered in more detail in other sections of this report.

Selected Data on Benefit Operations

Retirement-Survivor	Fiscal Year 2003	Fiscal Year 2002
Employee age annuities		
Number awarded ¹	8,300	11,100
Number being paid at end of period	210,400	216,000
Average being paid at end of period	\$1,554	\$1,496
Employee disability annuities		
Number of total disability annuities awarded	1,300	1,100
Number of total occupational disability annuities awarded	3,600	4,100
Number of total disability annuities being paid at end of period	19,800	19,700
Number of occupational disability annuities being paid at end of period	62,700	62,000
Average total disability annuity being paid at end of period	\$1,112	\$1,070
Average occupational disability annuity being paid at end of period	\$1,863	\$1,800
Supplemental employee annuities		
Number awarded ¹	6,100	8,300
Number being paid at end of period	129,200	132,100
Average being paid at end of period	² \$42	\$42
Spouse and divorced spouse annuities		
Number awarded, total ¹	8,700	9,800
Number being paid to divorced spouses at end of period	3,500	3,500
Number being paid at end of period, total	146,700	151,000
Average being paid to divorced spouses at end of period	\$366	\$354
Average being paid at end of period, total	\$598	\$579
Survivor annuities		
Number awarded to aged widow(er)s	7,800	8,100
Number awarded, total	9,800	10,100
Number being paid to aged widow(er)s at end of period	153,700	160,500
Number being paid at end of period, total	187,300	194,900
Average being paid at end of period to		
Aged widow(er)s	\$985	\$948
Disabled widow(er)s	\$831	\$799
Widowed mothers (fathers)	\$1,279	\$1,228
Remarried widow(er)s	\$647	\$627
Divorced widow(er)s	\$649	\$633
Children	\$744	\$728
Lump-sum survivor benefits awarded		
Number of lump-sum death benefits	5,300	5,300
Average lump-sum death benefit	\$898	\$897
Number of residual payments	100	100
Average residual payment	\$3,678	\$3,219

Selected Data on Benefit Operations (Continued)

Employees and Earnings ³	Fiscal Year 2003	Fiscal Year 2002
Average employment	224,000	231,000
Creditable earnings, Railroad Retirement Act (billions):		
Tier I	\$13.03	\$13.09
Tier II	\$12.04	\$12.04
Creditable compensation, Railroad Unemployment Insurance Act (billions)	\$3.09	\$3.11
Unemployment-Sickness	Benefit Year 2002-2003	Benefit Year 2001-2002
Qualified employees	259,100	269,900
Unemployment benefits		
Net amount paid (millions)	\$45.6 ⁴ (\$44.3)	\$47.4
Beneficiaries	15,400 ⁴ (15,300)	17,800
Number of payments	96,700	103,600
Normal benefit accounts exhausted	2,900	2,700
Average payment per 2-week registration period	\$449	\$429
Sickness benefits		
Net amount paid (millions)	\$49.9 ⁴ (\$50.1)	\$50.9
Beneficiaries	22,400 ⁴ (22,900)	23,000
Number of payments	160,700	168,400
Normal benefit accounts exhausted	4,700	5,100
Average payment per 2-week registration period	\$461	\$445

¹ Fiscal year 2002 awards were larger than normal due to enactment of the Railroad Retirement and Survivors' Improvement Act of 2001.

² Includes 1,700 supplemental annuities, averaging \$66, awarded under the 1937 Act.

³ Except for fiscal year 2002 employment, all figures in this section are preliminary.

⁴ Data in parentheses are for the fiscal year (October 1, 2002 - September 30, 2003).

Office of Inspector General

During fiscal year 2003, the Office of Inspector General continued its independent oversight of agency operations and its efforts to combat fraud, waste, and abuse. Thirteen audit and management information reports issued during the year identified operational weaknesses and recommendations for corrective action to program managers.

Investigative activities resulted in 55 criminal convictions, 50 indictments and informations, 23 civil judgments and \$2.5 million in recoveries, restitutions, fines, civil damages and penalties.

A REVIEW OF OPERATIONS

At the end of fiscal year 2003, total railroad retirement system assets equaled \$24.2 billion. During fiscal year 2003, benefits totaling nearly \$9.0 billion were paid under the Railroad Retirement and Railroad Unemployment Insurance Acts. Retirement and survivor benefits accounted for almost all of this amount.

Net unemployment and sickness benefits totaled over \$94.0 million.

RAILROAD RETIREMENT AND SURVIVOR PROGRAM

As of September 30, 2003, total railroad retirement system assets, including those maintained in U.S. Treasury accounts and those maintained by the National Railroad Retirement Investment Trust (the “Trust” or “NRRIT”), equaled \$24.2 billion, an increase of \$2.2 billion during the fiscal year. Amounts in the Railroad Retirement (RR) Account not needed to pay current administrative expenses and amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to the National Railroad Retirement Investment Trust whose Board of seven trustees is empowered to invest Trust assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Almost \$19.2 billion was transferred to the Trust during the year.

FINANCIAL OPERATIONS - U.S. TREASURY ACCOUNTS

During fiscal year 2003, railroad retirement and survivor benefit payments were financed through four U.S. Treasury accounts.

The SSEB Account, established in fiscal year 1985, pays the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. The RR Account funds retirement, survivor and disability benefits, in excess of social security equivalent benefits, from payroll taxes on employers and employees and other income sources. Effective January 1, 2002, supplemental benefit payments are paid from the RR Account. The Dual Benefits Payments (DBP) Account and Federal Payments (FP) Account, funded by congressional

Financial information (other than when the term “paid” or “collected” is used) is presented on the accrual basis of accounting instead of the cash basis of accounting, except for the Federal income tax transfer explanation on pages 10 and 11 and the Trust information on pages 7, 13, 15 and 16. Benefit operations data presented on pages 16-26 for the railroad retirement and survivor program and pages 30-33 for the railroad unemployment and sickness insurance program are on a cash basis of accounting. The primary difference between the two bases of accounting is that the accrual basis recognizes revenue when it is earned and expenditures when they are incurred. The cash basis, on the other hand, recognizes revenue and expenditures only when cash is received or paid.

appropriations from general revenues, finance the phase-out costs of certain vested dual benefits and interest on unnegotiated checks, respectively. The four accounts together incurred \$8.9 billion in benefit obligations, net of recoveries (excluding \$1.2 billion in social security benefits which were reimbursed by the Social Security Administration) during fiscal year 2003.

Financing Sources

Payroll Taxes

The primary source of income to the railroad retirement and survivor program is payroll taxes levied on covered employers and their employees. Payroll taxes amounted to almost \$4.2 billion, 40.8 percent of total financing sources and \$387.9 million less than in fiscal year 2002.

Railroad employees and employers pay tier I taxes which, by law, are the same as social security taxes. The rate of 7.65 percent is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of earnings subject to the 6.20 percent rate in calendar year 2003 was \$87,000, and all earnings were subject to the 1.45 percent Medicare tax. In calendar year 2002, the maximum amount subject to the 6.20 percent tax was \$84,900, with all earnings subject to the 1.45 percent Medicare tax. Both employees and employers also pay a tier II tax to finance railroad retirement benefit payments over and above social security levels. This tax, on earnings up to \$64,500 in 2003 and \$63,000 in 2002, was 4.9 percent on employees. It was 14.2 percent on employers in 2003 and 15.6 percent in 2002.

Tier I and tier II taxes for fiscal year 2003 amounted to more than \$2 billion and \$2.3 billion, respectively. A contingent liability of \$172 million for a refund of tier I and tier II taxes was recorded in the general ledger in fiscal year 2003.

Financial Interchange Transfers

The second major source of income to the railroad retirement and survivor program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the Social Security Old-Age, Survivors and Disability Insurance (OASDI) and Hospital Insurance (HI) Trust Funds in the same position in which they would have been had railroad employment been covered by the Social Security and Federal Insurance Contributions Acts. This involves computing the amount of social security taxes that would have been collected on railroad employment, and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year.

In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the Social Security Trust Funds to the SSEB Account. If

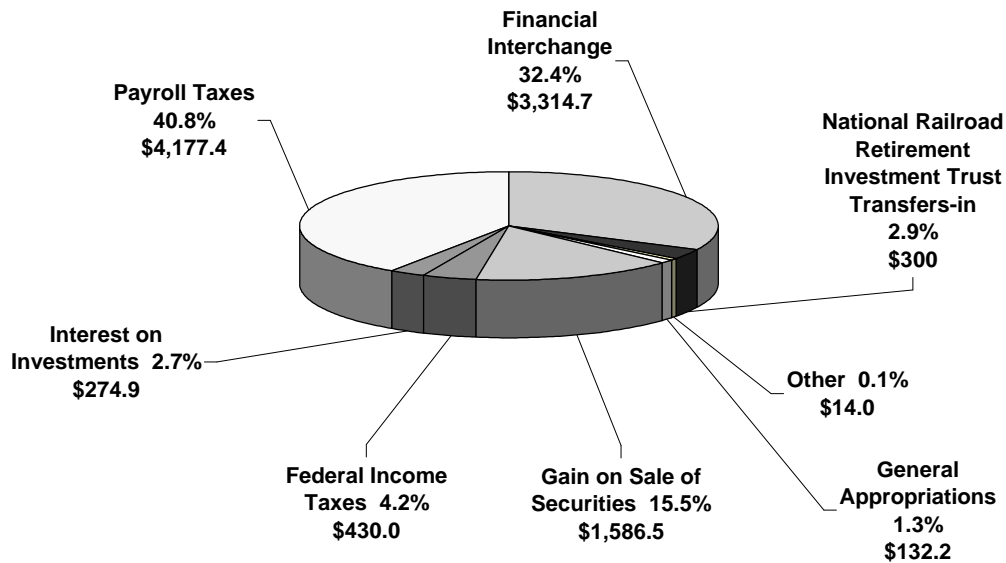
(text continued on page 11)

RETIREMENT AND SURVIVOR PROGRAM

Financing Sources - Fiscal Year 2003 (In Millions)

GROSS TOTAL: \$10,229.7

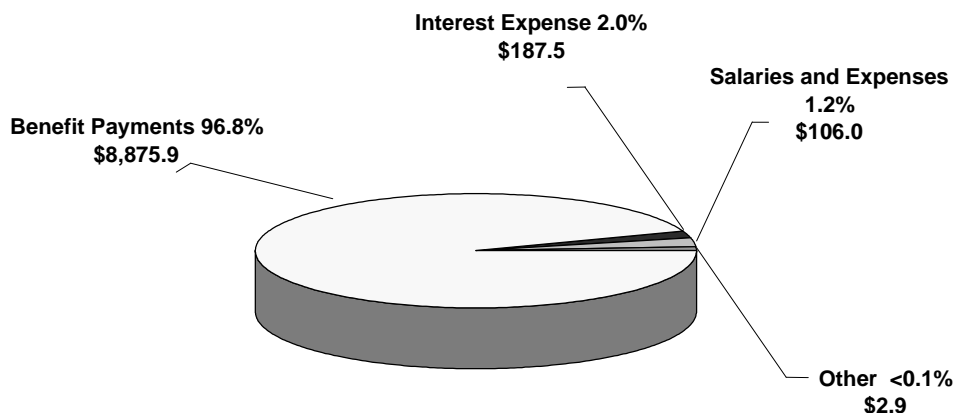
(Excluding transfers to the National Railroad Retirement Investment Trust of \$19.188 billion)



Note.--Percentages may not add to 100 due to rounding.

Costs - Fiscal Year 2003 (In Millions)

TOTAL: \$9,172.3



**Federal Income Tax Transfers by Recipient Account and
Benefit Component, Taxable Years 1994-2003 (Millions)**

Taxable year	Revenue from taxes on		
	RRA benefits treated as SSA benefits	RRA benefits treated as private or public pensions	
	SSEB tier I benefits	Tier II & non-SSEB tier I ¹	Vested dual benefits
	SSEB Account ²	RR Account	DBP Account ³
Transfers during the year			
1994	\$52	⁴ \$197	\$19
1995	50	191	16
1996	57	192	14
1997	61	195	12
1998	74	196	12
1999	79	227	11
2000	102	245	12
2001	94	229	10
2002	97	252	9
2003	97	283	9
Reconciliation adjustments ⁵			
1994 (1997, 1999 ⁶)	-4	+11	-3
1995 (1999)	+9	+27	...
1996 (1999)	+18	+34	+1
1997 (2000, 2001 ⁷)	+25	+43	+3
1998 (2002)	+14	+47	+2
1999 (2003)	+15	+22	+3

¹ Includes non-SSEB portion of tier I.

² Receives taxes on social security equivalent benefit (SSEB) portion of tier I.

³ Receives taxes on vested dual benefit component beginning October 1, 1988.

⁴ Includes amounts transferred in August 1994 under the Social Security Independence and Program Improvements Act: \$49 million for October-December 1992; \$192 million for 1993; and \$148 million for January-September 1994.

⁵ The year in parentheses is the year the adjustments were made.

⁶ Reconciliation of RR Account benefits made in July 1999.

⁷ Reconciliation of benefits made in October 2001.

taxes exceed benefit reimbursements (this has not happened since 1951), a transfer would be made in favor of the Social Security Trust Funds. The net financial interchange transfer to the SSEB Account during fiscal year 2003 amounted to \$3.3 billion.

Interest on Investments and Other Revenue

As a result of the divestiture of investments associated with the transfer of funds to the National Railroad Retirement Investment Trust as required by the Railroad Retirement and Survivors' Improvement Act of 2001, interest revenue decreased from \$1.0 billion in fiscal year 2002 to \$274.9 million in fiscal year 2003. In fiscal year 2003, the RR Account also earned interest revenue from financial interchange advances and a loan to the RUIA trust fund.

Net Gain on Sale of Securities

The Board transferred almost \$19.2 billion and over \$1.5 billion to the National Railroad Retirement Investment Trust in fiscal years 2003 and 2002, respectively. The redemption of market-based securities and bonds necessitated by the transfers to the Trust during fiscal years 2003 and 2002 yielded capital gains of \$1.6 billion and \$3.4 million, respectively.

Federal Income Tax Transfers

Legislation enacted in 1983 subjecting social security and railroad retirement benefits to Federal income taxes also provided for a transfer of the tax revenues to the social security and railroad retirement systems for the payment of benefits. Revenue from income taxes on social security equivalent railroad retirement benefits is transferred to the SSEB Account.* Revenue derived from taxing regular railroad retirement benefits in excess of social security equivalent benefits is transferred to the RR Account. Revenue from taxing the vested dual benefits funded by the general revenue appropriations previously described is transferred to the DBP Account.

At the beginning of each quarter, income tax transfers are made from Treasury general funds to the SSEB, RR and DBP Accounts. These transfers are estimates of expected tax revenues for the quarter. Adjustments are made later to reconcile the estimates for a taxable year with actual tax revenues for the year. On a cash basis, original tax transfers for fiscal year 2003 amounted to \$379 million during the year. Original transfers for fiscal year 2002 totaled \$347 million. Net income tax transfers after adjustments were \$442 million for fiscal year 2003, including a \$63 million adjustment for calendar year 1998. Net transfers in fiscal year 2002 were \$343 million, including -\$4 million in reconciliation adjustments.

The table on the previous page shows income tax transfers to the Accounts for taxable years 1994 through 2003, including reconciliation adjustments through 1999.

(text continued on page 14)

* Legislation enacted in 1993 subjected a larger amount of social security benefits and social security equivalent railroad retirement benefits to Federal income tax for taxpayers in higher income brackets. This provision was effective beginning with taxable year 1994, and the additional revenue raised is transferred to the Federal Hospital Insurance Trust Fund.

Railroad Retirement and Survivor Program - U.S. Treasury Accounts

Consolidated Financing Sources, Costs and Net Position (Millions)¹

For the Fiscal Year Ended September 30	2003	2002
Financing Sources:		
Payroll Taxes	\$4,177.4	\$4,565.3
Financial Interchange	3,314.7	3,281.1
Interest on Investments and Other Revenue	274.9	1,035.8
Net Gain on Sale of Securities	1,586.5	3.4
Federal Income Taxes	430.0	336.0
General Appropriations	132.2	146.2
Other	14.0	11.1
Transfers to the National Railroad Retirement Investment Trust	(19,188.0)	(1,502.0)
Transfers from the National Railroad Retirement Investment Trust	300.0	0.0
Total Financing Sources	(8,958.3)	7,876.9
Costs:		
Benefit Payments	8,875.9	8,681.4
Interest Expense	187.5	210.7
Salaries and Expenses ²	106.0	105.4
Other	2.9	2.6
Total Costs	9,172.3	9,000.1
Financing Sources over Costs	(18,130.6)	(1,123.2)
Net Position - Beginning of Period	18,681.6	19,804.8
Net Position - End of Period	\$551.0	\$18,681.6

¹Prepared on an accrual basis of accounting.

²Includes unemployment and sickness insurance salaries and expenses of approximately \$15.6 million and \$15.7 million for fiscal years 2003 and 2002, respectively.

National Railroad Retirement Investment Trust
Statement of Changes in Net Assets (In thousands)

For the Fiscal Year Ended September 30, 2003

Increase (Decrease) in Net Assets:

Operations:

Net Expenses	\$ (4,544)
Net Realized Loss from Investment Securities	(134,134)
Net Unrealized Appreciation on Investment Securities	<u>2,846,308</u>

Net Increase in Net Assets Resulting from Operations	2,707,630
---	-----------

Net Assets Transferred to the Trust	18,887,998
-------------------------------------	------------

Net Assets:

Beginning of Year	<u>1,420,298</u>
End of Year	<u><u>\$ 23,015,926</u></u>

See notes to financial statements at end of Trust report (Appendix C) reprinted at the back of this *Annual Report*.

Source: National Railroad Retirement Investment Trust's Annual Management Report for Fiscal Year 2003.

General Appropriations

General revenue appropriations were provided by the Railroad Retirement Act of 1974 to fund the phase-out costs of certain dual railroad retirement/social security benefits considered vested prior to 1975, and by the Railroad Retirement Solvency Act of 1983 to fund interest on unnegotiated checks. The total amounts appropriated by the Congress for vested dual benefits were \$132 million for fiscal year 2003 and \$146 million for fiscal year 2002. These amounts include \$12 million and \$7 million in Federal income tax transfers for 2003 and 2002, respectively. The amount appropriated for fiscal year 2003 was 9.6 percent less than fiscal year 2002, reflecting the continuing decrease in eligibility for these benefits, which are not increased for the cost of living. The total amounts appropriated by the Congress for interest on unnegotiated checks were \$150,000 for fiscal years 2003/2004 and also \$150,000 for fiscal years 2002/2003.

Other Financing Sources

Other financing sources consisted of \$9.3 million to be provided by the Office of Personnel Management to pay future retirement benefits to Railroad Retirement Board employees, and \$14.2 million from the railroad unemployment trust funds in transfers-in for current budget fiscal year salaries and expenses. These financing sources were offset by transfers-out of \$3.9 million for salaries and expenses of the Board's Office of Inspector General, and a \$5.6 million decrease in unexpended appropriations.

Costs

The Railroad Retirement Board pays all salaries and expenses under a single administrative fund (Limitation on Administration) for both the railroad retirement and survivor program and the unemployment and sickness insurance program. Consequently, of the \$106.0 million and \$105.4 million shown on page 12 for salaries and expenses in fiscal years 2003 and 2002, respectively, about \$15.6 million for fiscal year 2003 and \$15.7 million for fiscal year 2002 were for the unemployment and sickness insurance program. About \$1.4 million and \$1.2 million of the amount shown in other costs for fiscal years 2003 and 2002, respectively, were for the unemployment and sickness insurance program.

Excluding \$17.0 million from total costs of \$9.2 billion for fiscal year 2003 and \$16.9 million from total costs of \$9.0 billion for fiscal year 2002, total costs for the railroad retirement and survivor program for fiscal year 2003 increased \$172.1 million or almost 2 percent.

Benefit Payments

During fiscal year 2003, railroad retirement benefit payments increased \$194.5 million or almost 2 percent to about \$8.9 billion, including \$129 million in vested dual benefits and \$66.3 million in supplemental annuities.

Interest Expense

Interest expense of \$187.5 million represents interest on the financial interchange advances made by the U.S. Treasury during the fiscal year.

Salaries and Expenses

Excluding unemployment and sickness insurance salaries and expenses of \$15.6 million for fiscal year 2003 and \$15.7 million for fiscal year 2002, salaries and expenses for the railroad retirement and survivor program were about \$90.4 million for fiscal year 2003 and about \$89.7 million for fiscal year 2002, a \$0.7 million or 1 percent increase. Adjusted by the \$15.6 million in salaries and expenses and \$1.4 million in other costs for the unemployment and sickness insurance program, fiscal year 2003 administrative expenses for the railroad retirement and survivor program were about 1 percent of total costs.

Other Costs

Other costs consisted primarily of post-retirement benefits for Railroad Retirement Board employees of \$7.9 million for the railroad retirement and survivor program and \$1.4 million for the unemployment and sickness insurance program. They were offset by a \$5.3 million reimbursement from the Centers for Medicare & Medicaid Services for Part B Medicare costs and a reimbursement of approximately \$0.5 million from the Board's Office of Inspector General for Board-incurred expenses.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST OPERATIONS

Funds not needed immediately for benefit payments or administrative expenses are invested. The National Railroad Retirement Investment Trust was established pursuant to section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001. The sole purpose of the Trust is to manage and invest railroad retirement assets. The Act authorizes the Trust to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. Government securities. The Trust has no powers or authority over the administration of railroad retirement benefits. The Trust is a tax-exempt entity independent from the Federal Government. It is domiciled in and subject to the laws of the District of Columbia.

Fiscal year 2003 was a year of substantial growth for the Trust. During the fiscal year ending September 30, 2003, the Trust's first full fiscal year of operations, a total of \$19.2 billion was transferred from the Department of the Treasury accounts managed by the Railroad Retirement Board to the Trust for investment. These assets were invested in an indexed portfolio of equity and debt securities with an asset allocation consistent with the Trust's investment guidelines. As of September 30, 2003, the market value of Trust-managed assets had increased to \$23.0 billion, reflecting a 19.9%

rate of return for the fiscal year, compared to an 18.8% return for its composite benchmark. The greater return on Trust-managed assets is largely attributable to positive market returns stemming from the periodic receipt and investment of cash transfers during the year. The performance return resulted in an increase of \$2.7 billion in the Trust-managed portfolio over the fiscal year.

As of September 30, 2003, total railroad retirement system assets (Trust-managed assets and reserves held in the Treasury accounts) equaled \$24.2 billion, an increase of \$2.2 billion during the fiscal year.

Trust operations are described in detail in Appendix C at the back of this *Annual Report*.

BENEFIT OPERATIONS

Retirement and survivor benefits paid, including vested dual benefits and supplemental employee annuities, totaled \$8.9 billion in fiscal year 2003, \$219 million more than in fiscal year 2002. Benefits were paid to more than 666,200 beneficiaries in fiscal year 2003. Nearly 619,500 beneficiaries were being paid at the end of the year. The adjacent table presents retirement and survivor benefit payments for fiscal years 2003 and 2002, by type of benefit, and the percent changes in payments between the 2 years.

Under the two-tier railroad retirement formulas, the tier I annuity portion approximates a social security benefit and increases by the cost-of-living percentage applied to social security benefits. The tier II portion, which is comparable to retirement benefits paid over and above social security benefits to workers in other industries, increases by 32.5 percent of the social security percentage. Effective December 2001, tier I portions increased by 2.6 percent while tier II portions increased by 0.8 percent. Increases of 1.4 percent for tier I and 0.5 percent for tier II were effective December 2002.

Type of benefit	Amount (in millions)		Percent change
	Fiscal year 2003	Fiscal year 2002	
Retirement benefits			
Employee annuities			
Age	\$3,910.4	\$3,811.5	+2.6
Disability	1,686.5	1,608.6	+4.8
Supplemental	66.5	67.1	-0.9
Spouse and divorced spouse annuities	1,062.6	1,048.7	+1.3
Total	6,726.0	6,535.9	+2.9
Survivor benefits			
Annuities	2,131.8	2,102.4	+1.4
Lump-sum benefits	5.1	5.1	-0.7
Total	2,136.9	2,107.5	+1.4
Grand total	\$8,862.9	\$8,643.5	+2.5
Note. --Detail may not add to total due to rounding.			

The December 2001 and December 2002 cost-of-living increases provided additional benefit payments of about \$102 million in fiscal year 2003, compared to payments in fiscal year 2002.

Monthly retirement and survivor benefits being paid numbered nearly 756,200 at the end of the 2003 fiscal year, about 19,500 less than at the end of the prior year. Monthly beneficiaries on the rolls declined by almost 16,400 over the year, from 635,900 to 619,500. The number of monthly benefits paid is always greater than the number of beneficiaries on the rolls, since many annuitants receive more than one type of benefit. Although the second benefit is usually a supplemental employee annuity, some employees also receive a spouse or widow(er)'s annuity.

Regular employee annuities in payment status at the end of fiscal year 2003 numbered 292,900, about 4,800 less than at the end of the previous fiscal year. The number of age annuities being paid dropped from 216,000 to 210,400 over the year, while disability annuities rose 900 to about 82,600. Supplemental annuities being paid dropped nearly 2,900, numbering 129,200 at the end of the year. The number of divorced spouse annuities being paid remained the same at 3,500. Spouse and divorced spouse annuities together declined by almost 4,300, totaling 146,700 at year-end. Some 187,300 monthly survivor benefits were being paid at the end of fiscal year 2003, a decrease of 7,600 from the previous year.

Retirement

Regular employee annuities

Awards of regular employee annuities numbered 13,200 in fiscal year 2003, 3,100 less than in fiscal year 2002. Awards in fiscal year 2002 were larger than normal due to enactment of the Railroad Retirement and Survivors' Improvement Act of 2001 which liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 after 2001. Data by type of annuity awarded during the year are given in the table on this page.				Average		
	Employee annuities awarded in fiscal year 2003	Number	Per-cent	Monthly amount	Years of service	Age at retire-ment
	Age					
	Beginning at full retirement age or over	900	7	\$1,564	21.9	66.5
	Unreduced, beginning at age 60 to under full retirement age	5,500	41	2,640	35.4	60.7
	Reduced, beginning at age 62 to under full retirement age	1,900	14	1,228	17.5	62.5
	Disability	5,000	37	2,092	24.2	53.4
	Total	13,200	100	\$2,160	27.7	58.6
	Note.--Detail may not add to total due to rounding.					

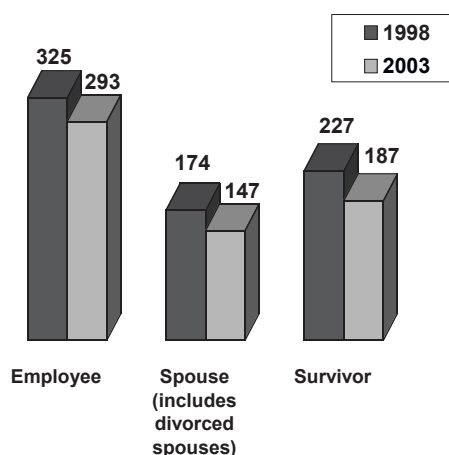
Railroad employees with 10 to 29 years of creditable service, or 5 to 9 years of service if at least 5 years were after 1995, are eligible for regular annuities based on age and service at age 62. Early retirement annuity reductions are applied to annuities

awarded before full retirement age--the age at which an employee can receive full benefits with no reduction for early retirement. This ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. For employees born January 2, 1938 - January 1, 1939, full retirement age is 65 and 2 months. If an employee had any creditable railroad service before August 12, 1983, the retirement age for tier II purposes will remain 65. The reduction for early retirement is 1/180 for each of the first 36 months the employee is under full retirement age when his or her annuity begins and 1/240 for each additional month.

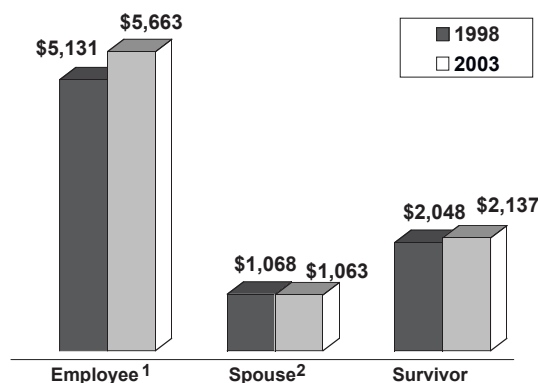
Rail employees with 30 or more years of service are eligible for regular annuities based on age and service at age 60. Certain early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 *before 2002*. Employees who retire at 60 or older with at least 30 years of railroad service are referred to as 60/30 retirees.

Disability awards are based either on total disability or on occupational disability. A *total disability* annuity is based on disability for all employment and is payable at any age to employees with at least 10 years of railroad service. Employees with 5-9 years of service, if at least 5 years were after 1995, may qualify for tier I only before retirement age on the basis of total disability if they also meet certain social security earnings requirements. An employee is con-

Number of monthly beneficiaries, September 30, 1998, and 2003 (Thousands)

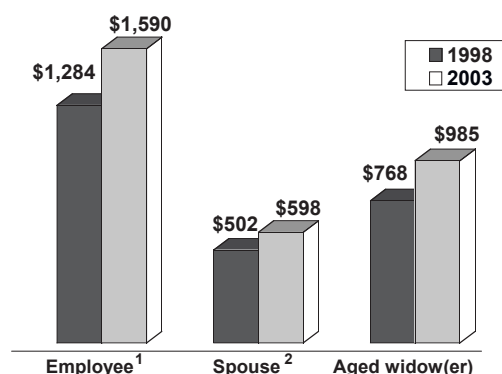


Amount of benefits paid, fiscal years 1998 and 2003 (Millions)



¹Includes \$78.6 million in fiscal year 1998 and \$66.5 million in fiscal year 2003 for supplemental annuities. ²Includes divorced spouses.

Average monthly amount, September 30, 1998, and 2003



¹Without supplemental annuity. ²Includes divorced spouses.

sidered totally disabled if medical evidence shows that a permanent physical or mental condition exists which prevents the performance of any regular work. A condition is considered to be permanent if it has lasted or may be expected to last for at least 12 months.

An *occupational disability* annuity is based on disability for the employee's regular railroad occupation and is payable to employees with a current connection with the rail industry at age 60 if the employee has 10 years of service, or at any age if the employee has at least 20 years of service. An employee is considered occupationally disabled if the physical or mental condition is such that the employee is permanently disabled for work in his or her regular railroad occupation, even though the employee may be able to perform other kinds of work.

Of the year's 5,000 disability awards, 1,300 averaging \$1,397 per month were for total disability and 3,600 averaging \$2,341 were for occupational disability. Many employees who are disabled for all employment but are otherwise qualified for an occupational disability annuity are initially awarded occupational disability annuities in order to expedite payment.

An estimated three-fifths of all employees awarded disability annuities will meet the medical criteria for a disability freeze determination. The standards for freeze determinations follow social security law and are comparable to the criteria for granting total disability. Also, an employee granted a disability freeze may qualify for early Medicare coverage and lower Federal income taxes on his or her annuity.

Of the employees who were awarded regular annuities in fiscal year 2003, more than 9,400, or 71

percent, last worked for a railroad either in the calendar year their annuity began or in the preceding year. Such retirements are termed "immediate," while those that occur 2 or more calendar years after the year of last railroad employment are called "deferred." As a group, immediate retirees represent career railroad employees who worked in the industry until retirement. Awards based on imme-

Employee annuities in current-payment status on September 30, 2003	Number	Percent	Average monthly amount	Percent immediate retirements
Age				
Beginning at full retirement age or over	32,100	11	\$1,178	46
Unreduced, beginning at age 60 to under full retirement age	91,400	31	2,024	94
Reduced, beginning at age 60 to under full retirement age	87,000	30	1,197	40
Disability	<u>82,600</u>	<u>28</u>	1,683	81
Total	292,900	100	\$1,590	69
Note. --Detail may not add to total due to rounding.				

mediate retirement averaged \$2,439 per month, compared to \$1,468 for the 3,800 awards based on deferred retirement. Immediate retirees averaged 31 years of railroad service, considerably more than the average of 20 years for deferred retirees. Of the year's awards, 51 percent of normal age retirements were immediate. While 86 percent of all 60/30 retirements were immediate, only 17 percent of the reduced age awards to employees with less than 30 years of service were immediate. Immediate retirements accounted for 79 percent of the year's disability awards.

The 292,900 retired employees on the rolls as of September 30, 2003, were being paid regular monthly annuities averaging \$1,590. The table on the previous page gives data by type of annuity for these benefits.

Of the 82,600 disability annuities being paid, 19,800 were for total disability and 62,700 for occupational disability. The two types of disability annuities averaged \$1,112 and \$1,863, respectively. In fiscal year 2003, approximately \$268 million was paid in total disability annuities and \$1,419 million in occupational disability annuities.

Some 202,100 employees on the rolls at the end of fiscal year 2003 were immediate retirees and their regular annuities averaged \$1,885 per month. Annuities of the 90,800 deferred retirees averaged \$933. Although their average railroad retirement annuity was much lower, a greater proportion of the deferred annuitants also received social security benefits--38 percent compared to 6 percent for the immediate retirees. Moreover, the average social security benefit paid to deferred retirees was higher than that paid to immediate retirees. Combined railroad retirement and social security benefits to deferred retirees who were dual beneficiaries averaged \$1,178, while combined benefits to immediate retirees averaged \$1,579. The table on this page gives numbers of beneficiaries and average benefit amounts for employees on the rolls who were receiving social security benefits, and for those who were not, by type of retirement.

Dual benefit status	Type of retirement		
	Total	Immediate	Deferred
Receiving social security benefit			
Number	46,200	12,100	34,100
Average monthly amount:			
Railroad retirement (regular)	\$471	\$1,000	\$283
Social security	812	578	895
Combined benefit	<u>1,283</u>	<u>1,579</u>	<u>1,178</u>
Not receiving social security benefit			
Number	246,800	190,000	56,700
Average monthly amount	\$1,799	\$1,941	\$1,324
Note. --Detail may not add to total due to rounding.			

Regular employee annuities consist of as many as three components: tier I, tier II, and a vested dual benefit. Reductions for early age retirement are made in all components in cases where the employee retired before full retirement age with less than 30 years of railroad service. The tier I component is based on the employee's combined railroad and social security covered earnings, and is reduced by the amount of any

social security benefit that the employee receives. The gross tier I amounts of employees on the rolls at the end of fiscal year 2003 averaged \$1,268 per month. Tier I amounts of nearly 8,700 employees were completely offset by social security benefits. Tier I amounts being paid averaged \$1,122.

The employee tier II component is based solely on railroad earnings. Tier II amounts being paid at the end of fiscal year 2003 averaged \$483. Employees are eligible for vested dual benefits if, based on their own earnings, they met certain vesting requirements and qualified for both railroad retirement and social security benefits at the end of 1974, or, in some cases, at the end of an earlier year of last railroad service. More than 58,800 retirees were receiving vested dual benefits averaging \$158 at the end of the fiscal year.

Supplemental employee annuities

Some 6,100 supplemental annuities were awarded in fiscal year 2003, 2,200 less than in fiscal year 2002. Fiscal year 2002 awards reflected enactment of the Railroad Retirement and Survivors' Improvement Act of 2001. Nearly 4,700 of the awards (76 percent) began concurrently with the employee's regular annuity, while the remaining 1,500 were to employees already receiving a regular annuity. Supplemental annuity awards averaged over \$41 per month; 86 percent were at the current maximum rate of \$43. Supplemental annuities are reduced for any part of a private railroad pension attributable to employer contributions. During the fiscal year, 1,400 supplemental annuities were not awarded because they were entirely offset by private pensions. In a few cases, the supplemental annuity was partially offset by the pension, or the supplemental annuity was not offset because the pension was reduced.

Supplemental annuities were being paid to about 129,200, or 44 percent, of the retired employees on the rolls at the end of the 2003 fiscal year. These annuities averaged \$42; some 1,700 of them were paid under 1937 Act amendments, which stipulated a maximum rate of \$70.

Spouse and divorced spouse annuities

Annuity awards to spouses and divorced spouses of retired employees numbered 8,700 in fiscal year 2003, 1,000 less than in the previous year. Fiscal year 2002 awards reflected enactment of the Railroad Retirement and Survivors' Improvement Act of 2001. The table on the next page presents numbers and average amounts of spouse and divorced spouse annuities awarded during the year and being paid at the end of the year, by type of annuity and whether subject to age reduction.

If an employee is at least age 62 and retires with 10-29 years of railroad service, or has 5-9 years of service and at least 5 years were after 1995, the employee's spouse is eligible for an annuity at age 62. Full retirement age for a spouse is gradually rising from 65 to 67, depending on the year of birth. For spouses born January 2, 1938 - January 1, 1939, full retirement age is 65 and 2 months. Early retirement reductions are applied to the spouse annuity if the spouse retires before full retirement age. The reduction for early retirement is 1/144 for each of the first 36 months the spouse is

under full retirement age when her or his annuity begins and 1/240 for each month (if any) over 36.

If an employee retires with at least 30 years of service and is at least age 60, the employee's spouse is eligible for an annuity at age 60. Prior to 2002, certain early retirement reductions were applied to the tier I component of such a spouse annuity if the employee retired before age 62, unless the employee attained age 60 and completed 30 years of service prior to July 1, 1984. If a 30-year employee retired at age 62, no age reduction applied to the spouse annuity. December 2001 legislation liberalized early

retirement benefits for 30-year employees retiring at ages 60 or 61 *after 2001* and their spouses. A spouse of an employee qualified for an age and service annuity is eligible for a spouse annuity at any age if caring for the employee's unmarried child, and the child is under age 18 or the child became disabled before age 22.

Of the 2,700 reduced spouse annuities awarded in fiscal year 2003, 500 averaging \$743 per month were to spouses of 30-year employees and almost 2,200 averaging \$374 were to spouses of employees with less than 30 years of service.

At the end of fiscal year 2003, nearly 143,300 spouse annuities averaging \$604 per month were being paid. Approximately 3,500 divorced spouse annuities averaging \$366 per month were also being paid. Families with an employee and spouse on the rolls were paid combined railroad retirement benefits averaging \$2,282. This included \$1,678 in regular and supplemental employee annuities and \$604 in spouse annuities.

Approximately 57,400, or 39 percent, of the spouses and divorced spouses on the rolls were also receiving social security benefits. Combined railroad retirement and social security benefits to these annuitants averaged \$906 per month, including \$244 in railroad retirement benefits and \$662 in social security benefits. Railroad retirement annuities to the 87,500 spouses not receiving social security benefits averaged \$831, while railroad retirement annuities to the 1,800 divorced spouses not receiving social security benefits averaged \$527.

Monthly spouse benefits	Awarded in fiscal year 2003		In current-payment status on September 30, 2003	
	Number	Average amount	Number	Average amount
Beginning at full retirement age or over	1,200	\$368	21,200	\$342
With minor or disabled child in care	300	875	1,400	815
Unreduced, beginning at age 60 to under full retirement age	4,000	1,065	58,900	832
Reduced rate	<u>2,700</u>	445	<u>61,800</u>	471
Total	<u>8,300</u>	751	<u>143,300</u>	604
Divorced spouse annuities	<u>400</u>	389	<u>3,500</u>	366
Grand total	8,700	\$733	146,700	\$598

Note.--Detail may not add to total due to rounding.

Like regular employee annuities, spouse annuities consist of up to three components. The tier I component equals one-half of the employee's tier I amount before any reduction for the employee's social security benefit. The spouse tier I amount is reduced for the spouse's receipt of a social security benefit and may be reduced for a spouse's public service pension. The tier I portion may also be reduced if the spouse receives a railroad retirement employee annuity, but this reduction is usually restored through an addition to the spouse tier II amount. Divorced spouses receive only a tier I benefit.

The spouse tier II component equals 45 percent of the employee's tier II amount. Railroad retirement amendments in 1981 precluded further awards of vested dual benefits to spouses.

Of the 143,300 spouses on the rolls at the end of fiscal year 2003, 102,400 were being paid tier I amounts averaging \$510 per month. The tier I amounts of 40,900 spouses were completely offset by other benefits also due. Spouse tier II amounts averaged \$248. Vested dual benefits averaging \$126 were being paid to 4,300 spouses. The 3,500 divorced spouses on the rolls at the end of fiscal year 2003 were being paid tier I amounts averaging \$372 per month.

Lump-sum retirement benefits

A lump-sum benefit may be payable at retirement to employees who received separation or severance payments after 1984. This benefit approximates the tier II payroll taxes deducted from separation or severance payments that did not yield additional service credits for retirement. More than \$0.5 million was paid in separation/severance lump-sum benefits during fiscal year 2003.

Employees who have at least 10 years of railroad service and are not entitled to a vested dual benefit may be eligible for a dual retirement tax refund if they had concurrent railroad retirement and social security earnings within the period 1951-74. The refund is equal to the social security taxes that the employee paid on the combined railroad and social security earnings in excess of the annual railroad retirement creditable earnings maximum. During the 2003 fiscal year, the Board paid about 3,200 dual retirement tax refunds averaging \$89. Most of the payments were to employees retiring during the year. Less than 50 refunds were to survivors, mostly widows, of employees who died before receiving the refund. Employees entitled to dual retirement tax refunds for years after 1974 may claim them on their Federal income tax returns.

Survivor

Monthly benefits

Annuity awards to survivors of deceased railroad employees numbered 9,800 during fiscal year 2003, 300 less than the previous year. Some 187,300 survivor annuities were being paid at the end of the fiscal year, including 300 temporarily paid at spouse or divorced spouse annuity rates pending recomputation to widow(er)s' rates. Almost 153,700, or 82 percent, of the survivor annuities were to aged widows and widowers.

The table on this page presents numbers and average monthly amounts of survivor annuities, by type, for those awarded in the year and those being paid at the end of the year. Some of the survivor option annuities, which were being paid under laws in effect before August 1946, were to widows also receiving aged widows' annuities.

Survivor annuities, like regular employee and spouse annuities, consist of as many as three components: tier I, tier II and, for widows and widowers only, a vested dual benefit. As with spouses,

legislation in 1981 precluded new awards of vested dual benefits to widow(er)s.

The tier I component is computed according to social security formulas and is based on the deceased employee's combined railroad and social security earnings. A reduction is made for the survivor's receipt of a social security benefit. There may also be a tier I reduction if the survivor receives a railroad retirement employee annuity or public pension. Remarried and divorced widow(er)s receive a tier I benefit only. A dependent parent receives only a tier I amount if another family member is also receiving benefits or if the parent has remarried.

Survivor tier II amounts are figured as a percentage of an employee tier II benefit. Prior to 2002, the percentages were 50 percent for a widow(er), 15 percent for a child, and 35 percent for a parent. The total tier II amount for a survivor family was subject to a minimum of 35 percent and a maximum of 80 percent of the employee tier II benefit, and all survivor tier II amounts were proportionately adjusted when either limit applied. December 2001 legislation established an "initial minimum amount" for widow(er)s which provides a tier II benefit equal to 100 percent of the tier II amount of the deceased employee, effective February 2002. The maximum tier II amount payable to a family rose to 130 percent of the employee's tier II amount. Widows and widowers are guaranteed a total tier I and tier II amount not less than what they were paid as a spouse, any necessary increase being added to tier II.

Aged widow(er)s, who are eligible for benefits at age 60, have their tier I and tier II

Monthly survivor benefits	Awarded in fiscal year 2003		In current-payment status on September 30, 2003	
	Number	Average amount	Number	Average amount
Aged widow(er)s'	7,800	\$1,346	153,700	\$985
Disabled widow(er)s'	200	1,262	5,100	831
Widowed mothers' (fathers')	200	1,384	1,000	1,279
Remarried widow(er)s'	200	775	5,400	647
Divorced widow(er)s'	700	743	9,500	649
Children's:				
Under age 18	400	986	2,700	995
Student	*	1,097	100	1,035
Disabled	200	833	9,700	671
Parents'	*	\$823	100	677
Survivor option	...	...	*	70
Total	9,800	...	187,300	...

*Fewer than 50.

Note.--Data may not add to total due to rounding.

amounts reduced if the annuity begins before full retirement age. The eligibility age for unreduced annuities is gradually rising from age 65 to age 67. The maximum age reductions will range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. Excluding nearly 300 annuities temporarily paid at spouse or divorced spouse rates, aged widow(er)s' annuities being paid at the end of the 2003 fiscal year included 69,700 which were reduced for age. Aged widow(er)s' tier I amounts being paid averaged \$834 per month. In nearly 11,900 cases, the tier I amount was wholly offset by reductions for other benefits. Some 59,100 aged widow(er)s were also receiving social security benefits, and these averaged \$630. Tier II amounts averaged \$209. About 5,900 vested dual benefits averaging \$63 were being paid to aged widow(er)s.

The tier I and tier II amounts of disabled widow(er)s' annuities, which begin at ages 50-59, are reduced 28.5 percent for age. Tier I amounts being paid to disabled widow(er)s on the rolls at the end of fiscal year 2003 averaged \$691 (in more than 200 cases, the tier I amount was wholly offset by reductions). Social security benefits being paid to nearly 1,500 disabled widow(er)s averaged \$607. Tier II amounts averaged \$169, while the 300 vested dual benefits being paid averaged \$77.

Tier I amounts paid to widowed mothers and fathers (widows and widowers caring for children) generally equal 75 percent of the full amount payable to an aged widow(er) before any reductions, similar to a social security mother's or father's benefit. Eligible children and grandchildren are paid this same tier I amount. However, if the sum of the tier I amounts of all members of a survivor family exceeds the social security family maximum, then tier I amounts are proportionately reduced so that the total equals the maximum. Reductions for the family maximum usually occur when the family includes three or more beneficiaries. Tier I amounts being paid as of the end of fiscal year 2003 averaged \$925 for widowed mothers and fathers and \$679 for children. Fewer than 50 mothers (fathers) and some 2,500 children received social security benefits averaging \$733 and \$449, respectively. Tier II amounts paid mothers (fathers) and children averaged, respectively, \$370 and \$86. None of the widowed mothers received a vested dual benefit.

Lump-sum survivor benefits

A lump-sum death benefit can be payable at the time of an employee's death only if there are no survivors immediately eligible for monthly benefits. For survivors of employees who had at least 10 years of railroad service before 1975, the lump-sum death benefit is based on the employee's earnings through 1974, with a maximum amount of approximately \$1,200. If the employee completed the 10th year of service after 1974, the lump-sum death benefit is limited to \$255, the maximum benefit payable under social security law, and only the widow or widower living in the same household is eligible for the benefit. Approximately 5,300 lump-sum death benefits averaging \$898 were awarded during fiscal year 2003. Some 600 benefits were to widow(er)s, while 4,700 were to other individuals who paid the funeral expenses. Effective January 2002, lump-sum benefits may be payable to survivors of employees

with less than 10 years of service but at least 5 years after 1995 if the employee met the social security insured status requirements.

Another lump-sum survivor benefit, the residual payment, can be made if no other benefits based at least in part on an employee's railroad service will be payable in the future, and the total of prior benefit payments is less than what the employee paid in pre-1975 railroad retirement taxes. The 80 residual payments awarded in the 2003 fiscal year averaged \$3,678. Nearly all of the awards were to widow(er)s of employees not insured for monthly benefits under the Railroad Retirement Act, other relatives, designated beneficiaries, or the employee's estate. However, a few payments went to widow(er)s and parents who elected to waive future monthly benefits in order to receive a residual benefit.

Medicare Enrollments

The Medicare program provides health insurance to persons ages 65 and older, as well as persons under age 65 who have been entitled to monthly benefits based on total disability for at least 24 months or who suffer from chronic kidney disease requiring hemodialysis or transplant. In addition to the basic hospital insurance, or Part A, plan, which is financed through payroll taxes, there is an elective supplementary medical insurance, or Part B, plan for which monthly premiums are charged.

Eligible railroad retirement annuitants and social security beneficiaries whose benefits are payable by the Railroad Retirement Board are automatically enrolled under both plans, but Part B may be declined. Eligible nonretired persons must apply in order to obtain Medicare coverage. The Board automatically enrolled nearly 21,300 beneficiaries for Medicare during fiscal year 2003. As of the end of the fiscal year, nearly 560,700 persons were enrolled in the Part A plan, and about 545,900 (97 percent) of them were also enrolled in Part B.

Except for benefits for services in Canada, which are paid from the Railroad Retirement Account, railroad enrollees are paid Part A benefits from the Federal Hospital Insurance Trust Fund, the same as persons covered under the social security system. Part B benefits are paid from the Federal Supplementary Medical Insurance (SMI) Trust Funds. The carrier for Part B claims of railroad Medicare enrollees made payments totaling \$845 million in the 2003 fiscal year.

The regular monthly premium for medical insurance during fiscal year 2003 was \$54 for coverage through December 2002 and \$58.70 thereafter. The Board generally withholds Medicare premiums for annuitants from their benefit payments, and at the end of the fiscal year, approximately 512,900 annuitants were having their premiums withheld. Of the remaining Part B enrollees, approximately 7,000 were paying premiums to the Board, either directly or through an intermediary, and 26,000 had their premiums paid by State agencies. The Board periodically transfers premiums to the SMI Trust Funds.

RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

FINANCIAL OPERATIONS

Financing sources for the railroad unemployment and sickness insurance program during fiscal year 2003 exceeded costs by \$35.7 million and the net position increased by \$35.7 million from \$15.8 million at the end of fiscal year 2002 to \$51.5 million at the end of fiscal year 2003. For fiscal year 2003 as compared to fiscal year 2002, total financing sources for the railroad unemployment and sickness insurance program increased by \$48.4 million (59 percent) to \$130.1 million.

(text continued on p. 29)

Unemployment and Sickness Insurance Program **Consolidated Financing Sources, Costs and Net Position (Millions)¹**

For the Fiscal Year Ended September 30	2003	2002
Financing Sources:		
Employer Payroll Taxes	\$143.3	\$94.9
Interest Income	2.8	2.5
Other	(16.0)	(15.7)
	<hr/>	<hr/>
Total Financing Sources	130.1	81.7
	<hr/>	<hr/>
Costs:		
Benefit Payments:		
Unemployment	43.5	49.6
Sickness	50.9	56.4
	<hr/>	<hr/>
Total Costs	94.4	106.0
	<hr/>	<hr/>
Financing Sources over Costs	35.7	(24.3)
Net Position - Beginning of Period	15.8	40.1
	<hr/>	<hr/>
Net Position - End of Period	\$51.5	\$15.8

¹Prepared on an accrual basis of accounting.

UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

Financing Sources - Fiscal Year 2003 (In Millions)

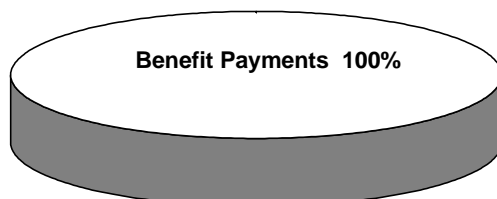
GROSS TOTAL \$146.1



Net of Transfer = \$130.1

Costs - Fiscal Year 2003 (In Millions)

TOTAL \$94.4



Financing Sources

The primary financing source of the railroad unemployment and sickness insurance program is a payroll tax on railroad employers, based on the taxable earnings of their employees. The employees themselves are not taxed.

Each employer pays taxes at a rate which takes into consideration its employees' actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unemployment and sickness pay taxes at a lower rate than those with higher levels of benefit usage. Each employer's rate also has a component for administrative expenses and a component to cover costs shared by all employers. The rate applies to monthly earnings up to an indexed maximum. In calendar year 2003, the taxable earnings base was the first \$1,120 of each employee's monthly earnings. The earnings base is indexed each year by a rate which is equal to approximately two-thirds of the annual rate of increase in the maximum base for railroad retirement tier I taxes.

In 2003, the basic tax rates on railroad employers, including covered commuter railroads, ranged from a minimum of 3.15 percent (includes surcharge of 2.5 percent) to a maximum of 12 percent. Most employers were assessed the minimum rate in 2003. New employers in 2003 paid an initial rate of 2.36 percent.

Employer Payroll Taxes

Payroll taxes by employers totaled \$143.3 million during fiscal year 2003. This was an increase of 51 percent or \$48.4 million more than the previous year.

Interest

Cash not needed immediately for unemployment and sickness insurance benefits or operating expenses is held in the Federal Unemployment Insurance Trust Fund and invested by the Secretary of the Treasury. The fund earned an average rate of return of 6.07 percent in fiscal year 2003, of which the Railroad Retirement Board earned \$2.8 million as its pro rata share.

Other Financing Sources

Other financing sources were (1) transfers-out of \$14.7 million and \$14.4 million to the Limitation on Administration Account to fund salaries and expenses for the unemployment and sickness insurance program for fiscal years 2003 and 2002, respectively; and (2) transfers-out of \$1.3 million for each of fiscal years 2003 and 2002 to fund administrative expenses of the Board's Office of Inspector General.

Costs

Total costs for the railroad unemployment and sickness insurance program decreased by \$11.6 million (10.9 percent) to \$94.4 million. These costs consisted solely of benefit payments.

Benefit Payments

During fiscal year 2003, unemployment insurance benefit payments decreased by \$6.1 million (12.3 percent) to \$43.5 million. Sickness insurance benefit payments decreased \$5.5 million (9.8 percent) to \$50.9 million.

BENEFIT OPERATIONS

Net unemployment and sickness benefits totaling \$95.5 million were paid in the 2002-2003 benefit year, \$2.8 million less than in the prior year. Beneficiaries numbered 36,400 in comparison to the previous year's total of some 39,100. Approximately 1,400 employees received both unemployment and sickness benefits during the 2002-2003 benefit year. The number of unemployment benefit claimants decreased by over 13 percent, while sickness benefit claimants decreased by some 2 percent. Total unemployment benefit payments decreased by less than 4 percent, while net sickness benefits decreased by almost 2 percent. The number of employees qualified for benefits under the Railroad Unemployment Insurance Act fell 4 percent to 259,100.

Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year. During benefit year 2002-2003, there were 12,500 and 18,200 unemployment and sickness benefit waiting period claims, respectively.

Unemployment

Nearly 15,400 railroad workers were paid \$45.6 million in unemployment benefits during the 2002-2003 benefit year. The number of benefit claimants decreased by 2,400 from the prior year total of 17,800, while the benefit amount fell \$1.8 million from the year-earlier total of \$47.4 million. The average number of compensable days per unemployment benefit claimant was 62 in benefit year 2002-2003 as compared to 58 in the previous benefit year. This was the highest number of compensable days since benefit year 1998-1999.

The mid-month unemployment count in the 2002-2003 benefit year began with a July count of 3,000 claimants. The count peaked at 7,500 in January, then dropped

NOTE.—Railroad unemployment and sickness benefits are paid on the basis of benefit years beginning July 1 and ending June 30 of the following year. Consequently, operational data in this "Benefit Operations" section are generally presented for this time span, rather than fiscal years beginning October 1 and ending September 30.

Major unemployment and sickness benefit operations, benefit years 2002-2003 and 2001-2002

Item	Benefit year 2002-2003			Benefit year 2001-2002		
	Total	Unemploy- ment	Sickness	Total	Unemploy- ment	Sickness
Applications	46,200	18,300	27,900	50,100	22,000	28,100
Claims	302,100	116,400	185,700	322,500	128,500	194,000
Beneficiaries	¹ 36,400	15,400	22,400	¹ 39,100	17,800	23,000
Net amount of benefits	\$95,505,300	\$45,614,000	\$49,891,300	\$98,286,400	\$47,382,700	\$50,903,700
Number of payments						
Normal	233,000	89,900	143,000	245,800	97,100	148,800
Extended	24,500	6,800	17,700	26,200	6,500	19,600
Total	257,400	96,700	160,700	272,000	103,600	168,400
Average amount per 2-week registration period						
Normal	\$459	\$451	\$465	\$441	\$430	\$448
Extended	424	420	425	411	409	411
Total	456	449	461	438	429	445

¹ Benefits for both unemployment and sickness were paid to approximately 1,700 employees in benefit year 2001-2002 and 1,400 employees in benefit year 2002-2003. Those claimants who had only a non-compensable waiting period are not included in the beneficiary counts since no benefits were paid.

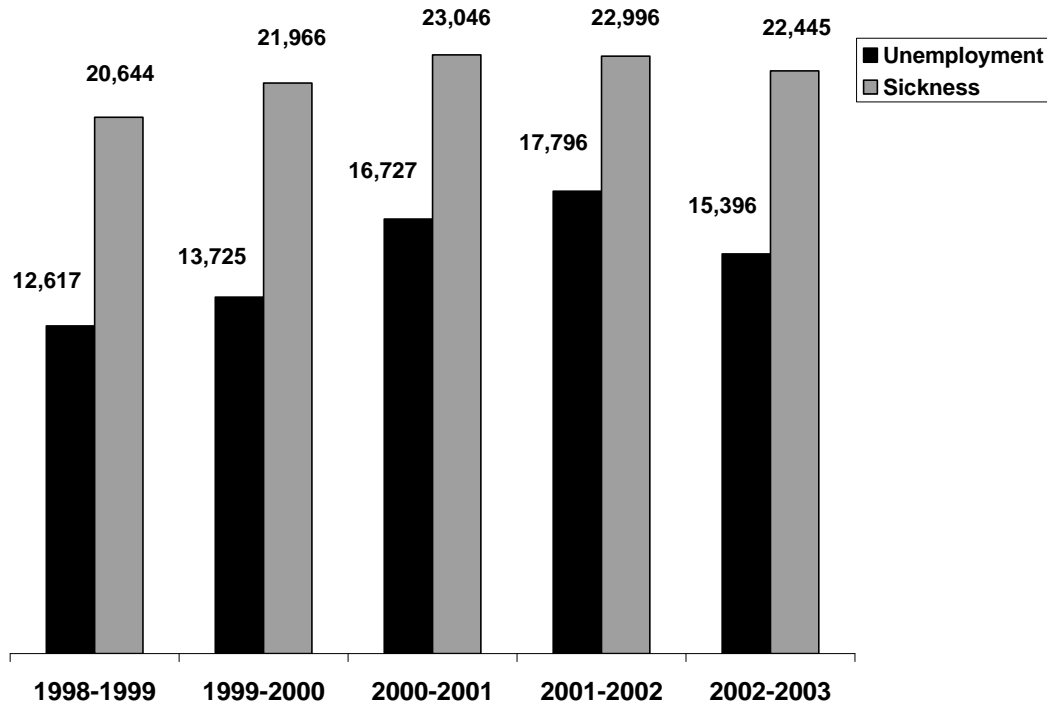
down to 1,900 in June 2003. For the 2002-2003 benefit year as a whole, the weekly number of claimants averaged 4,100 in comparison to an average of 4,600 in the previous benefit year. The overall unemployment benefit claimant rate, measured in relation to numbers of employees qualified to receive benefits under the Railroad Unemployment Insurance Act during a particular time period, decreased to 6 per 100 qualified from the previous year's level of 7 per 100 qualified. The median age of all unemployment benefit claimants was 44 years; it was 42 in the previous benefit year.

Sickness

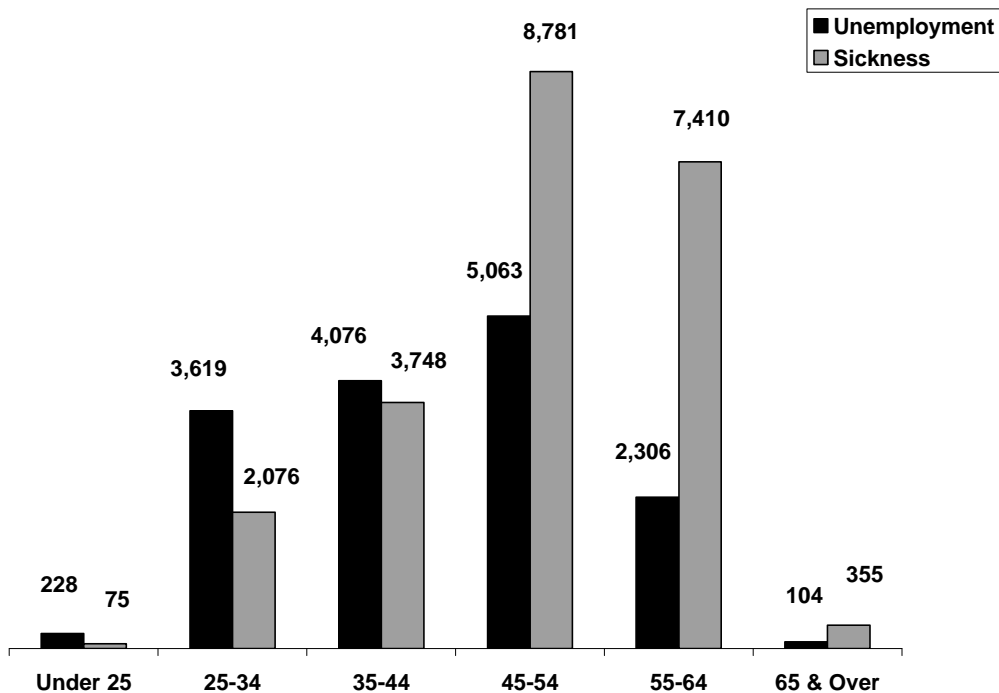
The number of sickness benefit claimants during the 2002-2003 benefit year was 22,400, about 600 lower than in the previous year. Gross sickness benefits of \$83.7 million were paid, \$0.4 million less than in the prior benefit year. Net sickness benefits totaled \$49.9 million, reflecting repayment of a large amount of benefits following settlements of suits for injuries. Benefits payable for an injury are recoverable if the claimant is awarded damages or receives a settlement for the injury. Net benefits decreased by \$1.0 million in comparison with the previous year.

(text continued on p. 33)

Beneficiaries under the Railroad Unemployment Insurance Act, Benefit Years 1998-1999 through 2002-2003



Unemployment and Sickness Benefit Claimants By Age, Benefit Year 2002-2003



Despite a decrease of 6.6 percent in the number of qualified employees, the number of sickness claimants decreased only 2.6 percent for the last 2 years, reflecting increases in the utilization rate. The average duration of sickness benefits decreased from last year, but is still longer than the duration of 3 years ago.

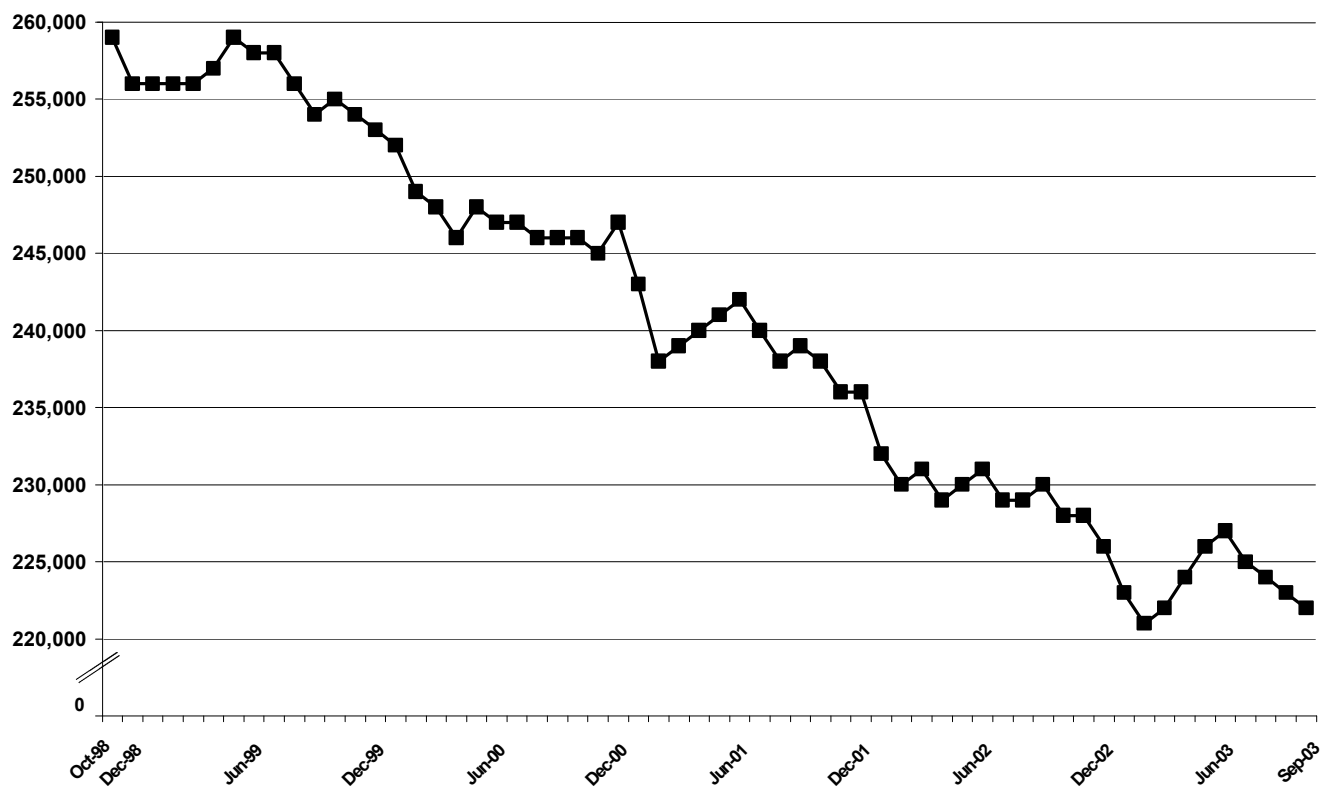
Benefit Year	Utilization Per 100 Qualified Employees	Average Compensable Days
1999-2000	7.9	69
2000-2001	8.3	71
2001-2002	8.5	73
2002-2003	8.7	71

Among the most common causes of sickness were injuries that included fractures or wounds (affecting 25 percent of beneficiaries), arthritis and disk disorders (21 percent), circulatory and heart disease (9 percent), and mental disorders, including drug and alcohol addictions (11 percent). The median age of all sickness benefit claimants was 51 years; it was 50 in the previous benefit year.

RAILROAD EMPLOYMENT

Average monthly railroad employment in fiscal year 2003 fell 2.9 percent to 224,000 from the 231,000 average of the previous year. October 2002 had the highest level of employment in fiscal year 2003 with 228,000 and January 2003 had the low of 221,000. The employment level by September 2003 was 222,000. Average employment decreased for the fourth consecutive fiscal year.

Average Railroad Employment Fiscal Years 1999 through 2003



Note.--Numbers for 2003 are preliminary.

ADMINISTRATIVE AND LEGISLATIVE DEVELOPMENTS

The following describes some major issues addressed in 2003 and 2004 as the Railroad Retirement Board continued efforts to improve agency operations and better serve its customers.

Service

Customer Service Plan

The Railroad Retirement Board's Customer Service Plan promotes the principles and objectives of customer-driven quality service agency-wide and is benchmarked to service levels in both government agencies and private industries performing similar functions. The Board's plan specifies the level of service customers can expect, measures performance, and obligates the Board to report annually on its performance. The plan is reviewed and updated periodically on the basis of the Board's experience, comparisons of the Board's service with the best in business, and feedback received from customers.

Fiscal year 2003 performance remained the same or improved when compared to fiscal year 2002 for nine of the 11 customer service workloads tracked by the agency. Even with declines in two areas, the agency still exceeded all of the customer service performance targets it had set for the year in its Annual Performance Plan. Performance remained the same or improved for retirement applications filed in advance, retirement applications not filed in advance, disability decisions, initial survivor applications, spouse to survivor conversions, unemployment benefit applications, sickness benefit applications, unemployment and sickness benefit claims, and correspondence.

Slight performance declines were noted for the handling of disability payments (0.1 percent) and lump-sum death benefits (0.8 percent).

The plan requires that persons who file in advance for a railroad retirement employee or spouse annuity will receive their first payment, or a decision, within 35 days of their annuity beginning date. Persons who do not file in advance will receive their first payment, or a decision, within 65 days of the date they filed their application. Of the cases processed during fiscal year 2003, 93.6 percent of employee and 96.2 percent of spouse applicants who filed in advance received a payment, or a decision, within

35 days of their annuity beginning date. Taking these employee and spouse cases together, 95.1 percent of this group met the agency's standard for fiscal year 2003. Also, 98.3 percent of employee and 94.6 percent of spouse applicants who had not filed in advance received a payment or a decision within 65 days of their filing date. Taken together, 96.7 percent of these cases met the agency's standard.

The Board's plan requires that those who file for a disability annuity receive a decision within 105 days of the date they filed their application. If entitled, the first payment will be within 25 days of the date of the Board's decision, or the earliest possible payment date, whichever is later. Of the cases processed during fiscal year 2003, 56.3 percent of those filing for a disability annuity received a decision within 105 days of the date they filed an application. Average processing time was 108.4 days. Of those entitled to disability benefits, 94.1 percent received their first payment within the plan's time frame.

The plan requires that those filing for monthly survivor benefit payments, or a lump-sum benefit, will receive their first payment, or a decision, within 65 days of the date they filed their application, or became entitled to benefits, if later. Those already receiving a spouse annuity will receive their first payment, or a decision, within 35 days of the date the Board receives notice of the employee's death. Of the cases processed during fiscal year 2003, 86.0 percent of the applicants for an initial survivor annuity were issued a payment or a decision within 65 days. In addition, 95.2 percent of the applicants for a lump-sum benefit were issued a payment or a decision within 65 days. In cases where the survivor was already receiving a spouse annuity, 91.8 percent of the applicants were issued a payment or a decision within 35 days of the Board being notified of the employee's death.

Persons who file an application for unemployment or sickness insurance benefits will receive a claim form, or a decision, within 15 days of the date the application was filed, and persons filing claims for subsequent biweekly unemployment or sickness insurance benefits will receive a payment, or a decision, within 15 days of the date the Board receives their claim forms. During fiscal year 2003, 100.0 percent of unemployment benefit applications sampled for timeliness and 99.3 percent of sickness benefit applications processed met the Board's standard. In addition, 99.7 percent of subsequent claims processed for unemployment and sickness benefits met the Board's standard for fiscal year 2003.

In fiscal year 2003, 99.3 percent of all correspondence the Board received was responded to, either with an acknowledgement or with a final reply, within the agency's 15-day standard.

Internet Services

Employer Reporting System.—The Board implemented the Employer Reporting System in December 2003, a new Internet service developed to allow rail and labor employers to file information related to the reporting of employee service and compensation data. This service is available on the Board Web site at www.rrb.gov.

Employers can now electronically file reports of compensation adjustments, records of employer determination on employee protests, and their annual employee address report used by the Board for mailing certificates of service months and compensation to rail employees. Employers can also access a new summary report of monthly and yearly compensation adjustment totals which is solely available online.

RUIAnet.—During 2004, the Board added a new service called RUIAnet. Railroad employees can use this service to apply for unemployment benefits over the Internet after establishing an RRB Internet Services Account. The Board is planning to add online filing of unemployment benefit claims in the future.

Retirement Planner.—Another new service added in 2004 is the online Retirement Planner which provides employee and spouse estimates for employees who have not yet retired under the Railroad Retirement Act. The estimates are based on the service and earnings records maintained by the Board and show the earliest date the employee can receive a full annuity and, if applicable, the earliest date he or she can receive a reduced annuity. Only railroad employees are allowed to access the Retirement Planner, but employees can also use the Retirement Planner to get annuity estimates for their spouses. In addition, employees can view and print a summary of their current record of railroad retirement service months, compensation, and social security wages. By adding service months, compensation, and wages in future years, they can also obtain an estimate based on projected earnings.

Changes to Web site.—The Board's Web site was revised to allow the agency's Medicare carrier to notify Board field offices of address changes and death reports by secure e-mail. The carrier receives approximately 200 such calls per day from beneficiaries. In addition, changes were made to improve processing of requests for replacement Medicare cards.

E-Gov.—The Railroad Retirement Board became a member of the Govbenefits.gov Web site. This Web site serves as a portal for services available from government organizations.

Preventing Identity Theft

A number of steps have been taken to safeguard the privacy of railroad retirement beneficiaries and protect against identity theft. The Board eliminated the printing of claim numbers on the annual railroad retirement rate letters mailed in December. Procedures for verifying the identity of individuals telephoning field offices to obtain beneficiary-specific information were reviewed and standardized. The practice of showing claim and social security account numbers on letters and forms mailed to beneficiaries is also being reviewed. Finally, the U.S. Treasury stopped printing claim and social security numbers on all Treasury checks issued after January 1, 2004.

Improper Payments Analysis

The President's Management Agenda includes a government-wide initiative for improved financial performance through the reduction of improper payments. The

Improper Payments Information Act of 2002 requires that agencies identify and reduce erroneous payments. The Board reviewed its benefit payment program and concluded it does not have significant improper payments as defined by Office of Management and Budget guidelines. Several in-house action plans address overpayments and underpayment in pending workloads.

Officials

Michael S. Schwartz continues to serve as Chairman of the Railroad Retirement Board. V. M. Speakman, Jr. continues to serve as Labor Member, and Jerome F. Kever continues to serve as Management Member.

The Board named Director of Administration Henry M. Valiulis as its Senior Executive Officer, with direct supervision over the Board's Executive Committee, which is responsible for the day-to-day operations of the agency and for making recommendations on agency-related policy issues. The Board also appointed Arthur A. Arfa Director of Hearings and Appeals.

Technology and Automation

Enterprise Architecture

The Board has been developing an agency-wide information strategy that reflects its architectural goals of fostering information sharing effectively and economically across the agency and the communities it serves.

One accomplishment was the development of the Business Architecture. This document defines the functions and sub-functions of the Board in general and will link them to all the work units and applications that support the function. It represents standards for planning and controlling the work across the agency in a common way to ensure that goals are met.

Another accomplishment was the development of the Service Component Reference Model. This is a component-based framework that is a foundation for reuse of applications, application capabilities, components and business services at the Board. Its purpose is to identify and classify service components that support the agency's mission, information technology investments, and assets.

Imaging

Initial implementation of a document imaging system was completed. Railroad Unemployment Insurance Act and Railroad Retirement Act claims materials reside in electronic files accessible to headquarters and field service staff. The system has provided considerable cost reductions.

Payroll Processing

The Board took required steps to comply with the e-payroll initiative, a key element

of the e-government portion of the President's Management Agenda. Under this initiative, agencies must eliminate stand-alone payroll processing systems, transferring this function to one of four approved government systems. The Board selected the payroll system operated by the General Services Administration and underwent necessary transition planning to complete the switch in fiscal year 2004. Time and attendance data are entered on the system in a web-based environment, with all processing and issuance of paychecks handled by the General Services Administration.

Building Security and Employee Safety

The Board continued to emphasize building safety and security procedures, in accordance with guidance from the Department of Homeland Security and the Office of Personnel Management. The agency continued to post relevant documents and Web site links on its Intranet, and conducted emergency planning briefings for managers and supervisors, as well as employees on the agency's safety committee and emergency response teams. Working with the City of Chicago, the Board conducted a successful emergency evacuation drill for the headquarters building. The agency also initiated a comprehensive review of its continuity of operations plans, with an emphasis on business resumption and disaster recovery of information technology capability. In response to a medical emergency involving a Board employee, emergency contact information was updated for all employees.

The Board also implemented an automated external defibrillator (AED) program at its headquarters building. The agency entered into an agreement with the Federal Occupational Health unit of the Department of Health and Human Services to obtain the necessary equipment and develop required procedures. There are six AED units throughout the building, with more than 130 employees trained in their use. In addition, the agency has conducted several drills of AED activation procedures.

Budget and Staffing

During fiscal year 2003, the agency finalized a memorandum of understanding with the General Services Administration that allows the agency to continue paying rent based on actual costs rather than commercial rental rates, which are greater. The agreement to maintain rental charges based on actual costs will avoid an increase in annual rental charges of about \$3.7 million.

The contract for special medical examinations was recompeted in fiscal year 2003, resulting in potential savings of \$2.5 million over the following 5 years.

In order to help the agency deal with Federal budget limitations on administration, the Board requested voluntary early retirement authority from the Office of Personnel Management. Under early retirement, employees may retire at age 50 with 20 years of service or at any age with 25 years of service. Normally, employees may retire at age 55 with 30 years of service, or at age 60 with 20 years of service. Altogether, 12 Board employees retired under the early retirement program.

Office of Equal Opportunity

Equal Opportunity Policy and Procedure

The Board implemented the Notification and Federal Employee Antidiscrimination and Retaliation (NO FEAR) Act of 2002. As required by the statute, statistical data pertaining to the complaints of discrimination filed by employees and applicants for employment were posted on the agency's official Web site. In addition, the agency's web pages related to equal employment opportunity were redesigned to accommodate the NO FEAR data and to allow for easy navigation.

Complaint Processing

The Equal Employment Opportunity Commission commended the Board as having the greatest improvement in the area of Alternate Dispute Resolution due to a 42-percent increase in participation.

Diversity Program

During 2003, the Office of Equal Opportunity's employee committees sponsored many events and activities to foster a diverse work environment and enhance the understanding of disability issues. Throughout the year, the Workplace Diversity Committee held various activities including an International Food Festival; a Native American program featuring a speaker from the Choctaw Nation; a lunch and learn video presentation on Japanese culture combined with an Origami demonstration; a seminar about the impact of various generational groups working together at the agency and several events to celebrate African American History Month and Hispanic Heritage Month. In addition, three issues of the *Diversity Times* newsletter were published. The Diversity Committee also initiated a project to create a quilt reflecting the diversity within the agency.

During Disability Awareness Month, the Employees with Disabilities Advisory Council sponsored a training session on disability awareness and etiquette. In addition, the agency was a participant in National Disability Mentoring Day. For this event, Council members served as mentors for a disabled high school senior who rotated among various divisions to learn how the agency operates.

Recruitment

The Office of Equal Opportunity worked cooperatively with the Bureau of Human Resources to increase diversity in the agency's external recruitment efforts.

Legislative Developments

The Social Security Protection Act of 2003 (Public Law 108-203), signed into law March 2, 2004, tightened the requirements for exemption from public service pension reductions in social security spouse and widow(er)s' benefits. This affects tier I railroad retirement spouse and widow(er)s' benefits, which are computed under Social Security Act provisions.

A public service pension is any periodic benefit payment, as well as lump-sum payments made in lieu of periodic pension payments, based on an individual's own employment with a Federal, State, or local government unit. Some examples are pensions paid to teachers, police officers, and civil service personnel on the basis of age or disability.

For railroad retirement spouses and widow(er)s subject to the public service pension reduction, the tier I reduction is, under current law, equal to 2/3 of the amount of the public pension. The amount of the public service pension is the current gross amount, before any deductions for income tax withholding, Medicare premiums, health insurance or other benefits.

The legislation requires that State and local government workers be covered by social security throughout their last 60 months of employment with the pension-paying government entity in order to be exempt from a reduction. Under prior law, a reduction generally did not apply to social security or railroad retirement spouse or widow(er)s' benefits if the government job that the public pension was based on was covered under the Social Security Act on the last day of public employment.

The law provides a transition for workers whose last day of government employment occurs within 5 years after the March 2, 2004, date of enactment. Any State or local government worker whose last day of government employment occurs after June 30, 2004, and before March 2, 2009, could have the requirement for 60 consecutive months of social security-covered government employment reduced.

The legislation corrects a loophole in the law which was being exploited. An investigation in 2002 by the General Accounting Office found almost 4,800 teachers in one State had switched or planned to switch to a clerical or janitorial position covered under social security on their last day of employment in order to avoid the reduction. The General Accounting Office found some school districts in that State even advertised and charged a fee (\$100-\$500) for teachers to take advantage of this loophole. One school district collected \$280,000 by charging fees to teachers who wanted to work in that district for one day to take advantage of the loophole.

Public Information Activities

The Board maintains direct contact with railroad retirement beneficiaries through its field offices located across the country. Field personnel explain benefit rights and responsibilities on an individual basis, assist railroad employees in applying for benefits and answer any questions related to the benefit programs. The Board also relies on railroad labor groups and employers for assistance in keeping railroad personnel informed about its benefit programs.

At informational conferences sponsored by the Labor Member of the Board for railroad labor union officials, Board representatives describe and discuss the benefits available under the railroad retirement-survivor, unemployment-sickness and Medicare programs, and the attendees are provided with comprehensive informational materials. A total of 1,414 railroad labor union officials attended 21 informational conferences held in cities throughout the United States during 2003. In addition, railroad labor unions frequently request that Board representatives speak before their meetings, seminars and conventions. In 2003, the Labor Member's Office was represented at 11 union gatherings attended by 2,895 railroad labor officials. Field personnel addressed 189 local union meetings with 3,558 members in attendance.

In August 2004, the Board's Management Member's Office welcomed 115 rail reporting officials from across the nation to its fifth National Rail Employer Training Seminar in Chicago. The seminar offered a variety of instructional sessions providing information and guidance for those railroad officials responsible for preparing and filing reports of service, compensation, contributions and other business interactions with the Board.

At seminars for railroad executives and managers, Board representatives review programs, financing, and administration, with special emphasis on those areas which require cooperation between railroads and Board offices. During 2003, the Management Member's Office conducted six seminars for railroad officials, as well as pre-retirement counseling seminars attended by railroad employees and their spouses, and benefit update presentations.

Office of Inspector General

During fiscal year 2003, the Office of Inspector General continued its independent oversight of agency operations and its efforts to combat fraud, waste, and abuse. Thirteen audit and management information reports issued during the year identified operational weaknesses and recommendations for corrective action to program managers.

The Office of Inspector General concluded its audit of the agency's financial statements, related internal controls and compliance with laws and regulation. Auditors reported that the principal financial statements presented fairly the financial position of the agency as of September 30, 2002, and 2001. They also cited two material weaknesses, the agency's overall control environment and the agency's system of information security, and one reportable condition, accounting for benefit overpayment recoveries.

The President's Management Agenda, issued in fiscal year 2002, provided five initiatives to all Federal agencies: strategic management of human capital; competitive sourcing; improved financial performance; expanded E-government; and budget and performance integration. In fiscal year 2003, auditors reviewed the applicability of these initiatives to the operations of the Railroad Retirement Board, and provided recommendations for strategic change that would permit the agency to address the President's initiatives. Two additional reviews that evaluated the agency's controls for estimating exposure to improper payments, and management's progress in meeting selected financial management requirements of Office of Management and Budget Circular A-127, addressed the President's initiative for improvement in Federal financial performance.

The Office of Inspector General expressed concerns about the absence of detailed and verifiable financial information on the activities of the National Railroad Retirement Investment Trust, an independent board with the responsibility for the investments used to fund Railroad Retirement Act benefit programs. Citing Railroad Retirement Board management for failure to implement any reporting mechanism for assessing portfolio risk, and to effectively monitor the activities of the Trust, the Inspector General stated his support for legislative amendments to the Railroad Retirement and Survivors' Improvement Act to grant oversight and enforcement powers to the Office of Inspector General.

The Office of Inspector General continued to place a high priority on its oversight of agency activities related to information systems. Auditors conducted the annual evaluation of the agency's information system security, as required by the Federal Information Security Management Act of 2002. The review disclosed that weaknesses continue to exist with significant deficiencies in access controls and program management. Although the agency is continuing to address previously identified weaknesses, corrective actions have not been completed. Office of Inspector General auditors and information system security staff are working together to ensure necessary actions are completed.

Auditors continued to monitor the agency's development and implementation of a new Internet-based employer reporting system. They also performed reviews of the agency's methodology for end-user computer applications, and the current system for authentication of individuals using the agency's Internet services.

Investigative activities resulted in 55 criminal convictions, 50 indictments and informations, 23 civil judgments and \$2.5 million in recoveries, restitutions, fines, civil damages, and penalties. In response to a request from the Inspector General at the National Aeronautics and Space Administration, two criminal investigators provided assistance to that office in the aftermath of the space shuttle Columbia tragedy. They provided security for recovered shuttle debris, surveillance of subjects suspected of stealing shuttle debris, and interviews of witnesses and subjects.

Special agents also performed a review of several cases that involved annuitants who returned to work in the rail industry but failed to notify the Railroad Retirement Board. This review identified weaknesses in program systems and procedures that were designed to detect such cases. As a result, the agency is implementing programming changes to address the system deficiencies. Program officials have also identified over 700 annuitants with creditable service after their annuity beginning date and are examining the cases to determine any impact on benefit payments.

LEGAL RULINGS

Eleven cases involving the Railroad Retirement Board were resolved by the courts during fiscal year 2003. Several significant legal opinions were issued.

Court Cases

Eleven cases of various types involving petitions for review of decisions of the Railroad Retirement Board were pending in the courts at the beginning of fiscal year 2003, and eleven cases were opened during the fiscal year. Eleven cases were resolved during fiscal year 2003; nine were decided in the Board's favor, and two were dismissed. Eleven cases were pending at the end of the fiscal year. The following describes the case of most significance to railroad employers and employees.

A petition for review was filed in *Arthur Roberts v. United States Railroad Retirement Board*, in the United States Court of Appeals for the Fifth Circuit, requesting review of the Board's determination regarding the beginning date for the petitioner's disability annuity. The petitioner had filed an application for a disability annuity which was denied. He did not appeal the denial. He later filed a second application, which was granted. He appealed the award of the annuity, contending that the annuity should be retroactive to the first application. The Court found that it did not have jurisdiction to hear the case involving the first application, since the petitioner had not exhausted his administrative remedies in connection with that application.

Legal Opinions

The following Legal Opinions are presented here because of their special significance or interest.

Legal Opinion L-2002-12 concerned an inquiry by the Wisconsin Central division of the Canadian National Railways as to whether payments under the Wisconsin Central System 2000 Workforce Restructuring Management Employee Severance Pay Plan (WES 2000 Plan) constitute a separation allowance which disqualifies the recipient from receiving unemployment insurance benefits pursuant to section 4(a-1)(iii) of the Railroad Unemployment Insurance Act.

The plan is described as an unfunded severance pay plan, the costs of which are borne entirely by the employer. Payments under the plan may be offered at the employer's discretion to individuals who have been full-time employees of the Wisconsin Central, the Fox Valley & Western, Ltd., or the Sault Ste. Marie Bridge Company for at

least 6 months who are not subject to a collective bargaining agreement, and who work in a position which is to be eliminated as part of the “2000 Workforce Restructuring.”

The WES 2000 Plan offers the employee two payment options. One is twice-monthly payments, equal to the employee’s base salary “less applicable withholdings,” for either 3 or 6 months, or until other employment is secured. The employee continues to be covered for health, dental and group life insurance at the employer’s expense during this period. The other option is a lump sum equal to 3 months’ salary “less applicable withholdings.” The employer does not continue to pay insurance coverage, but the employee may continue health insurance coverage for 18 months at his or her own expense as required by Federal law. To receive payments under the WES 2000 Plan, the employee must execute a release form.

Section 4(a-1) (iii) of the Railroad Unemployment Insurance Act provides that there shall not be considered as a day of unemployment or as a day of sickness, with respect to any employee, if he or she is paid a separation allowance, any of the days in the period beginning with the day following separation from service and continuing for that number of consecutive 14-day periods which is equal, or most nearly equal, to the amount of the separation allowance divided by ten times the last daily rate of compensation prior to separation if the employee normally works 5 days a week.

The General Counsel concluded: (1) that payments under the WES 2000 Plan cannot be considered exempt compensation pursuant to section 1(h)(6)(v) of the Railroad Retirement Act (sometimes known as a “wage continuation plan”) because they are not made on account of sickness or accident; (2) that no compensation may be credited for benefit entitlement purposes; (3) that the employee may not be considered in service to an employer for months after the month the employee has filed his or her election under either option; and (4) that payment under the WES 2000 Plan constitutes a separation payment which disqualifies the employee pursuant to section 4(a-1)(iii) of the Railroad Unemployment Insurance Act from receiving unemployment or sickness insurance benefits for a period equivalent to the length of time he or she would have worked to receive the amount of the payments under the Plan.

Legal Opinion L-2002-13 concerned crediting wage guaranty payments made to railroad employees pursuant to a 1996 revision of the February 7, 1965 Job Stabilization Agreement. The General Counsel ruled that the payments constitute pay for time lost creditable under section 1(h) of the Railroad Retirement Act.

The Job Stabilization Agreement arose from a dispute between a group of five railway labor organizations and a group of class I railroad employers which was mediated under the Railway Labor Act. Articles I and IV of the 1965 Agreement essentially provided that employees represented by the labor organizations who met a minimum service requirement as of October 1964 were protected from being placed in a worse position with respect to their compensation than the normal rate of compensation for their assigned position on October 1, 1964. Where the employee worked only seasonally, the Agreement required that he or she was to be offered employment at least equivalent to

that performed in his or her seasonal employment in 1964 both as to period and as to compensation.

In 1996, the Agreement was amended to provide:

Seasonal employees, who had compensated service during each of the years 1995, 1996 and 1997 who otherwise meet the definition of “protected” employees under Section 1, will be offered employment in future years at least equivalent to what they performed in 1997 unless or until retired, discharged for cause, or otherwise removed by natural attrition.

The General Counsel ruled that the 1996 revision does not alter the essential purpose of the section which is to establish compensation protection.

Accordingly, the General Counsel ruled that payments made to employees pursuant to the 1996 revision remain compensation, creditable to months for which the payments are made in the prior year. Where the guaranty payment represents the only compensation paid to an employee in the year, the employee must be credited in the records of the Board with months of service in a fashion consistent with the protection of service afforded to the employee by the Agreement, and that if the compensation is reported by the employer for the year in which the payment is made, the employee may request an amendment to his or her record of compensation, subject to the 4-year limitation specified by the Railroad Retirement Act and to current regulations of the Board governing finality of reports of compensation and service.

Legal Opinion L-2003-02 concerned the qualifications for a deemed current connection. The Railroad Retirement Act provides in pertinent part that an individual shall be deemed to have a current connection:

if, after having completed twenty-five years of service, such individual involuntarily and without fault ceased rendering service as an employee under this Act and did not thereafter decline an offer of employment in the same class or craft as the individual’s most recent employee service.

The employee concerned advised that he was employed when, in June 1986, windstorms washed away a part of the earthen fill across the Great Salt Lake suspending rail traffic over the fill into the shops where he worked. He was one of a number of employees who were furloughed. In August 1986, the tracks across the fill were reopened to train traffic and engineers, brakemen, conductors, and six carmen out of 52 were called back to work. The employee was not recalled, and in 1987, he accepted a separation allowance.

The employee provided substantiation of the furlough, including a letter dated December 17, 1987, from his former supervisor in which the supervisor stated that the employee “was furloughed when the employee work force was reduced in Ogden and will not be subject to recall.”

The General Counsel ruled that the employee had 25 years of railroad service and involuntarily and without fault ceased rendering service. The General Counsel found that there is no evidence that the employee thereafter declined an offer of employment in the same class or craft as his most recent employee service. Therefore, the General Counsel concluded that the employee should be found to have a deemed current connection.

Legal Opinion L-2003-09 concerned whether an amendment to Missouri law renders railroad retirement annuities subject to income taxation by the State of Missouri.

The Railroad Retirement Act provides that no annuity shall be subject to any tax. The Internal Revenue Code provides that the portion of a railroad retirement annuity which is equivalent to a social security benefit is subject to taxation on the same basis as a social security benefit. The Code further provides that the remaining portion of a railroad retirement annuity, and any supplemental annuity, shall be taxable as income to the same extent as a private pension under an employer plan. These Internal Revenue Code provisions are, in effect, exceptions to the prohibition against taxation contained in the Railroad Retirement Act, but *only* for purposes of Federal income taxes. The Act clearly continues to exempt railroad retirement annuities, including supplemental annuities, from income taxation by States.

The General Counsel pointed out that, while it appears that the Missouri Revised Statutes may allow deduction of the social security equivalent portion of a railroad retirement annuity from the calculation of Missouri adjusted gross income but may not exclude the remaining railroad retirement annuity and supplemental annuity, any question regarding this matter has been foreclosed by the Supreme Court of Missouri. That Court concluded in a 1991 decision that the Railroad Retirement Act excludes railroad retirement benefits from State taxation.

Accordingly, the General Counsel advised that, in accord with that 1991 decision of the Supreme Court of Missouri, section 14 of the Railroad Retirement Act would prohibit taxation of annuities, including supplemental annuities, under the income tax laws of Missouri.

Appeals

Any claimant for benefits under the Railroad Retirement or Railroad Unemployment Insurance Acts may appeal a determination he or she feels is not justified. This appeal must be filed within certain time frames. Appeals are heard and decided by the Bureau of Hearings and Appeals. An appellant who is dissatisfied with the decision on his or her appeal may further appeal the case to the three-member Board within a prescribed period of time.

Railroad Retirement Act

During fiscal year 2003, 704 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Retirement Act, and the Bureau rendered decisions in 668

appeals. The initial or reconsideration decision was sustained in 276 cases. In 392 appeals the decision was favorable to the claimant in whole or in part.

Ninety-three appeals were filed with the Board in fiscal year 2003, which, added to the 16 appeals carried over from the previous year, brought the total to be considered to 109. Of 80 decisions, 66 sustained previous rulings of the hearings officer, one was reversed, six were remanded to the Bureau of Hearings and Appeals, and seven were dismissed. At the end of the year, 29 appeals were pending before the Board.

Railroad Unemployment Insurance Act

During fiscal year 2003, 71 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Unemployment Insurance Act, and the Bureau rendered decisions in 61 appeals. The initial or reconsideration decision was sustained in 40 cases. In 21 appeals the decision was favorable to the claimant in whole or in part.

Five appeals were filed with the Board in fiscal year 2003, which, added to the three carried over from the previous year, brought the total to be considered to eight. The Board rendered decisions in six cases of appeals from the decision of the referee, affirming the decision in five of them and remanding one to the Bureau of Hearings and Appeals. At the end of the year, two appeals were pending before the Board.

STATISTICAL TABLES

Table 1.--Beneficiaries and benefits paid under the Railroad Retirement Act and the Railroad Unemployment Insurance Act, by fiscal year, 1994-2003

Fiscal year	Total ¹	Retirement ²	Survivor ²	Unemployment	Sickness
BENEFICIARIES (in thousands)					
1994.....	912	599	288	21	22
1995.....	879	582	282	16	21
1996.....	849	565	272	17	20
1997.....	830	549	263	15	21
1998.....	800	530	254	11	21
1999.....	777	514	246	13	22
2000.....	755	499	237	14	23
2001.....	737	483	228	18	24
2002.....	719	475	219	17	24
2003.....	699	465	211	15	23
BENEFIT PAYMENTS (in millions)					
1994.....	\$8,044.9	\$5,978.9	\$1,999.9	³ \$40.9	\$25.1
1995.....	8,120.6	6,042.9	2,016.3	35.7	25.8
1996.....	8,179.1	6,089.1	2,024.4	40.7	24.9
1997.....	8,278.6	6,166.3	2,039.4	37.5	35.4
1998.....	8,305.9	6,199.0	2,047.5	25.9	33.4
1999.....	8,317.7	6,207.2	2,041.3	33.0	36.2
2000.....	8,373.3	6,254.1	2,040.3	36.4	42.4
2001.....	8,506.2	6,352.6	2,058.8	43.2	51.6
2002.....	8,742.1	6,535.9	2,107.5	49.2	49.4
2003.....	8,957.3	6,726.0	2,136.9	44.3	50.1

¹ Benefit payments include a small amount of payments for hospital insurance benefits for services in Canada.

² Retirement benefits include vested dual benefit and supplemental annuity payments. Survivor benefits include vested dual benefit payments.

³ Includes extended unemployment benefits paid to claimants with less than 10 years of service and additional extended benefits to those with 10-14 years.

NOTE.-- Number of beneficiaries represents all individuals paid benefits in year. In total number for each year, beneficiaries are counted only once, even though they may have received more than one type of benefit. In fiscal year 2003, 10,000 individuals received both retirement and survivor benefits, 1,400 employees received both unemployment and sickness benefits, and 4,300 employees received benefits under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These figures are partly estimated, and totals for earlier years are similarly adjusted.

Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1994-2003 (In millions)

Item	Fiscal Year									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
RAILROAD RETIREMENT ACCOUNT										
Receipts										
Tax transfers ¹ ²	\$2,619.1	\$2,523.9	³ \$2,474.7	\$2,518.7	\$2,660.8	⁴ \$2,932.4	\$2,928.6	\$2,819.2	\$2,743.1	\$2,651.4
Interest and profit on investments ⁵	879.0	1,071.0	⁶ 913.0	⁷ 1,348.9	1,730.2	316.0	1,316.0	2,038.9	1,832.0	283.2
Transfers from the National RR Investment Trust ⁸										300.0
Expenditures										
Benefit payments ⁹	\$2,847.6	\$2,906.1	\$2,854.5	⁷ \$2,225.5	\$2,888.3	\$2,880.6	\$2,925.3	\$2,930.2	\$3,337.8	\$3,567.5
Net transfers to administration.....	49.7	50.5	50.8	47.1	49.5	51.2	55.9	54.7	64.9	64.0
Transfers to the National RR Investment Trust ⁸									1,431.6	17,750.0
Balance at end of period ¹⁰	\$11,286.1	\$11,926.4	\$12,352.5	\$13,972.3	\$15,451.2	\$15,768.9	\$17,032.9	\$18,907.2	¹¹ \$18,640.4	¹² \$502.2
SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNT¹³										
Receipts										
Tax transfers ¹	\$1,849.5	\$1,924.3	³ \$1,918.3	\$2,046.5	\$2,208.7	⁴ \$2,000.1	\$2,208.5	\$2,134.0	\$2,134.7	\$2,128.0
Interest and profit on investments ⁵	76.2	75.2	⁶ 123.3	⁷ (116.2)	90.7	91.5	101.7	93.8	115.4	67.8
Transfers under financial interchange ¹⁴	3,525.5	4,120.1	3,556.3	3,747.2	3,819.1	3,816.0	3,697.6	3,282.8	3,646.8	3,747.3
Advances against financial interchange ¹⁵	3,019.3	3,077.9	3,150.1	3,183.9	3,145.1	2,992.3	3,005.1	3,145.2	3,153.9	3,236.1
Expenditures										
Benefit payments ⁹	\$4,768.0	\$4,811.3	\$4,939.4	⁷ \$5,681.4	\$5,078.8	\$5,104.5	\$5,124.8	\$5,256.5	\$5,146.7	\$5,166.0
Net transfers to administration.....	24.1	26.7	23.3	25.3	26.2	25.2	27.1	25.0	26.1	22.8
Transfers under financial interchange ¹⁴	412.9	396.1	401.3	419.1	419.4	429.9	465.3	469.7	424.7	426.3
Repayment of advances against financial interchange ¹⁶	3,153.3	3,250.5	3,329.5	3,399.0	3,430.0	3,370.8	3,190.1	3,222.2	3,385.3	3,342.4
Transfers to the National RR Investment Trust ³										1,438.0
Balance at end of period ¹⁰	\$1,552.6	\$2,265.0	\$2,319.4	\$1,656.1	\$1,965.2	\$1,934.7	\$2,140.3	\$1,822.7	\$1,890.9	\$674.6

See footnotes at end of table.

Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1994-2003 (In millions) - Continued

Item	Fiscal Year									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST¹⁷										
Cash and investment balance at end of period ¹⁸									\$1,420.7	\$23,016.5
RAILROAD RETIREMENT SUPPLEMENTAL ACCOUNT¹⁹										
Receipts										
Tax transfers ¹	\$88.1	\$77.0	³ \$68.3	\$103.6	\$118.1	\$90.4	\$76.7	\$67.8	\$23.5	.....
Interest and profit on investments ⁵	1.5	1.1	⁶ (20.5)	(0.9)	0.7	2.5	3.5	3.1	2.9	.....
Expenditures										
Benefit payments ⁹	\$94.0	\$90.3	\$86.2	\$82.4	\$78.6	\$75.1	\$72.9	\$68.8	\$16.8	.....
Net transfers to administration	2.3	2.3	2.2	2.2	2.0	2.1	2.3	2.0	0.7	.....
Transfers to the National RR Investment Trust ⁸									70.4	.....
Balance at end of period ¹⁰	\$42.1	\$27.6	\$41.2	\$35.3	\$41.0	\$56.8	\$61.7	\$61.7	¹¹.....	.....
DUAL BENEFITS PAYMENTS ACCOUNT^{20 €}										
Dual benefit transfers ²¹	\$277.0	\$254.0	\$239.0	\$223.0	\$205.5	\$189.0	\$173.3	\$160.0	\$146.0	\$131.1
Benefit payments	269.4	251.5	233.4	216.4	200.9	188.4	171.4	156.0	142.2	129.4
Balance at end of period ¹⁰	\$7.6	\$2.5	\$5.3	\$6.6	\$4.6	\$0.6	\$1.9	\$4.0	\$3.9	\$1.8

See footnotes at end of table.

Footnotes - Table 2

¹ Net of U.S. Treasury adjustments for payroll tax refunds to certain carriers and their employees for prior periods. Includes Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended. In fiscal year 1994, the Railroad Retirement Account includes repayment taxes under Chapter 23A of the Internal Revenue Code, as amended, applied against outstanding loans due from the Railroad Unemployment Insurance Account.

² Includes an income tax transfer adjustment of +\$193 million for fiscal year 1993.

³ Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -\$13.4 million, Social Security Equivalent Benefit Account -\$14.5 million, and Railroad Retirement Supplemental Account +\$27.9 million.

⁴ Reflects transfer of \$83.1 million from the Social Security Equivalent Benefit Account to the Railroad Retirement Account for reallocation of fiscal year 1998 payroll taxes. Railroad Retirement Account also reflects special Treasury income tax adjustment of \$146 million for calendar years 1988-1994.

⁵ Net of interest on U.S. Treasury adjustments for payroll tax refunds (see note 1). Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in interest for benefit payment adjustments related to the financial interchange (see note 9).

⁶ Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -\$11.0 million, Social Security Equivalent Benefit Account -\$10.8 million, and Railroad Retirement Supplemental Account +\$21.8 million.

⁷ Reflects adjustment in benefit payments (Railroad Retirement Account -\$676.8 million, Social Security Equivalent Benefit Account +\$676.8 million) charged to the Social Security Equivalent Benefit Account for October 1984 - December 1995, as compared to actual financial interchange benefits, with interest (Railroad Retirement Account +\$241.6 million, Social Security Equivalent Benefit Account -\$241.6 million) through August 1, 1997.

⁸ Under the Railroad Retirement and Survivors' Improvement Act of 2001, the portion of the Railroad Retirement Account not needed to pay current administrative expenses and the balance of the Social Security Equivalent Benefit Account not needed to pay current benefits and administrative expenses are to be transferred to the National Railroad Retirement Investment Trust (Trust). The Trust may transfer funds back to the Railroad Retirement Account for payment of benefits.

⁹ Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in benefit payments charged to the Social Security Equivalent Benefit Account as compared to actual financial interchange benefits. Effective January 1, 2002, supplemental benefits are paid from the Railroad Retirement Account.

¹⁰ Through fiscal year 1995, all Account balances include liabilities for uncashed check credits received from U.S. Treasury. Beginning in fiscal year 1996, only the Railroad Retirement Account balance reflects these credits. The Railroad Retirement Account balance also reflects (a) the current net difference between Board payments of social security benefits and the receipt of reimbursements for such payments, (b) credits for undistributed payment returns and recoveries, and (c) loans to and repayments from the Railroad Unemployment Insurance or the Railroad Retirement Supplemental Accounts. Beginning fiscal year 1996, the Supplemental Account balance reflects loans from and repayments (including interest) to the Railroad Retirement Account. The Dual Benefits Payments Account balance does not carry over to the following year.

¹¹ Reflects transfer of \$124,000 from the Railroad Retirement Supplemental Account to the Railroad Retirement Account. The Railroad Retirement Account balance also reflects a loan of \$7.8 million to the Railroad Unemployment Insurance Account.

¹² Reflects payment during the year of the entire debt balance from the Railroad Unemployment Insurance Account, \$7.8 million in principal and \$0.4 million in interest.

¹³ Established October 1, 1984, to keep track of the financing and payment of social security level portions of railroad retirement benefits.

¹⁴ Transfers to or from OASDHI Trust Funds under section 7(c)(2) of the 1974 Railroad Retirement Act.

¹⁵ Advances, including interest, from U.S. Treasury to offset lag in receipt of financial interchange funds under section 7(c)(4) of the 1974 Railroad Retirement Act as amended.

¹⁶ Includes interest.

¹⁷ Established February 1, 2002, for investment of railroad retirement assets.

¹⁸ Source: National Railroad Retirement Investment Trust.

¹⁹ Under the Railroad Retirement and Survivors' Improvement Act of 2001, the supplemental work-hour tax was repealed for years after 2001, and the separate Railroad Retirement Supplemental Account was eliminated.

²⁰ Established October 1, 1981, to keep track of the financing and payment of vested dual benefits.

²¹ Transfers from U.S. Treasury under section 15(d) of the Railroad Retirement Act of 1974 and Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.

Table 3.--Status of the Railroad Unemployment Insurance Account, by fiscal year, 1999-2003 (In thousands)

Item	Fiscal year				
	1999	2000	2001	2002	2003
RECEIPTS					
Taxes.....	\$91,855	\$47,977	\$30,575	\$75,696	\$122,638
Interest.....	6,892	7,332	4,204	1,582	3,444
Transfer from Administration fund under sec. 11(d) of the RUI Act.....	5,814	6,546	6,048	6,734	5,645
Undistributed recoveries of benefit payments ¹	(99)	170	865	(900)	788
Loan from the RR Account.....	----	----	----	7,800	----
Total.....	\$104,462.....	\$62,025	\$41,692	\$90,912	\$132,515
EXPENDITURES					
Benefit payments.....	\$69,200	\$78,759	\$94,823	\$98,580	\$94,389
Repayment of RRA Loan.....	-----	-----	-----	-----	8,181
Funding for Office of Inspector General.....	1,158.....	1,209	1,233	1,372	1,392
Total.....	\$70,358	\$79,967	\$96,057	\$99,953	\$103,962
Cash balance end of period.....	\$100,715...	\$82,773	\$28,409	\$19,368	\$47,921
LOANS DUE RAILROAD RETIREMENT ACCOUNT					
Loans.....	-----	-----	-----	\$7,800	-----
Interest accrued.....	-----	-----	-----	208	\$173
Repayment from RUI Account.....	-----	-----	-----	-----	8,181
Due RR Account end of period.....	-----	-----	-----	\$8,008	-----

¹ Net of distributed payments.

Table 4.--Status of the RUIA Administration Fund, by fiscal year, 1994-2003 (In thousands)

Fiscal year	Taxes and interest	Administrative expenditures ¹	Transfer to Railroad Unemployment Insurance Account under Sec. 11d ²	Balance at end of period
1994	\$17,416	\$16,484	.....	³ \$3,965
1995	³ 17,597	16,462	\$538	4,634
1996	17,373	16,497	689	4,821
1997	16,891	16,136	694	4,883
1998	19,081	13,123	2,993	7,849
1999	20,235	13,188	5,814	9,081
2000	19,941	14,847	6,546	7,629
2001	20,434	14,004	6,048	8,011
2002	20,032	13,266	6,734	8,043
2003	21,313	15,407	5,645	8,304

¹ Expenditures for each year included encumbrances as of end of year.

² Transfers to the Railroad Unemployment Insurance Account are based on the amount the accrual balance on the prior September 30 exceeded \$6,000,000.

³ The cash balance at the beginning of fiscal year 1995 was increased \$72,000 to \$4,037,000 and fiscal year 1995 interest was decreased \$72,000 due to a fiscal year 1994 audit adjustment.

Table 5.--Number and average amount of retirement and survivor annuities in current-payment status at end of year, by type of annuitant and fiscal year, 1994-2003

Fiscal year	Total ¹	Retired employees			Spouses and divorced spouses	Aged widow(er)s ²	Disabled widow(er)s	Widowed mothers (fathers) ²	Children	Remarried widow(er)s	Divorced widow(er)s ²
		Age	Disability	Supple- mental							
NUMBER AT END OF YEAR											
1994	996,280	284,168	78,183	174,505	201,327	220,021	6,620	1,735	15,463	6,023	8,152
1995	967,175	274,603	78,566	168,231	195,082	212,639	6,525	1,617	15,302	6,071	8,457
1996	936,428	265,030	78,647	161,806	188,281	204,969	6,371	1,525	14,960	6,066	8,690
1997	906,741	255,664	79,063	155,721	181,399	197,447	6,202	1,462	14,665	6,064	8,976
1998	875,905	245,900	79,017	149,260	174,467	190,222	6,031	1,427	14,347	6,045	9,116
1999	846,687	236,741	79,617	143,515	167,478	182,839	5,893	1,327	13,964	5,967	9,280
2000	819,327	228,439	80,158	138,158	161,283	175,464	5,679	1,245	13,561	5,886	9,392
2001	790,711	219,646	80,574	132,799	154,710	167,840	5,460	1,165	13,233	5,733	9,490
2002	775,638	216,044	81,653	132,066	151,006	160,490	5,236	1,114	12,804	5,619	9,545
2003	756,176	210,363	82,572	129,201	146,740	153,673	5,105	1,035	12,472	5,421	9,541
AVERAGE AMOUNT											
1994 .....	.....	\$1,091	\$1,108	\$44	\$441	\$652	\$586	\$804	\$567	\$441	\$468
1995 .....	.....	1,133	1,171	44	456	680	607	844	589	463	487
1996 .....	.....	1,175	1,228	43	471	708	628	882	608	484	505
1997 .....	.....	1,223	1,291	43	487	740	650	916	627	507	526
1998 .....	.....	1,264	1,346	43	502	768	672	957	646	531	546
1999 .....	.....	1,300	1,398	43	514	792	687	991	659	548	559
2000 .....	.....	1,351	1,465	42	530	826	711	1,029	678	571	579
2001 .....	.....	1,414	1,548	42	550	870	746	1,076	706	603	606
2002 .....	.....	1,496	1,624	42	579	948	799	1,228	728	627	633
2003 .....	.....	1,554	1,683	42	598	985	831	1,279	744	647	649

¹ Includes annuities to parents. On September 30, 2003, there were 53 parents' annuities in current-payment status averaging \$677.

² Numbers include annuities temporarily being paid at spouse annuity rates, pending final adjudication of survivor annuities.

NOTE.--Data exclude survivor (option) annuities. On September 30, 2003, there were 2 survivor (option) annuities in current-payment status averaging \$70.

Table 6.--Number and average amount of retirement and survivor annuities awarded during year, by type of annuitant and fiscal year, 1994-2003

Fiscal year	Total ¹	Retired employees			Spouses and divorced spouses	Aged widow(er)s	Disabled widow(er)s	Widowed mothers (fathers)	Children	Remarried widow(er)s	Divorced widow(er)s
		Age	Disability	Supple- mental							
NUMBER AWARDED											
1994.....	44,378	9,000	4,885	5,320	11,847	10,631	229	241	909	469	836
1995.....	42,072	7,962	5,094	4,715	10,407	11,021	297	222	1,074	419	853
1996.....	38,635	7,415	4,878	4,414	9,576	9,979	233	204	825	365	737
1997.....	38,293	7,422	4,872	4,494	9,175	9,868	240	222	855	381	757
1998.....	36,508	6,756	4,620	4,399	8,739	9,566	248	236	851	360	727
1999.....	36,205	6,846	5,140	4,496	8,157	9,317	246	199	719	324	759
2000.....	35,818	7,186	4,709	4,749	8,316	8,699	204	159	714	336	744
2001.....	33,289	6,285	4,630	4,339	7,648	8,372	217	157	611	307	719
2002.....	44,485	11,127	5,206	8,337	9,764	8,104	199	161	590	273	716
2003.....	37,841	8,261	4,955	6,124	8,749	7,800	244	162	645	216	684
Cumulative 1937-2003	4,749,821	1,398,921	487,323	437,318	1,085,914	970,579	16,670	83,914	232,946	13,796	18,932
AVERAGE AMOUNT											
1994.....	.....	\$1,277	\$1,431	\$41	\$464	\$784	\$713	\$869	\$686	\$521	\$527
1995.....	.....	1,346	1,504	41	482	820	737	927	713	541	537
1996.....	.....	1,435	1,527	41	505	858	770	955	741	594	564
1997.....	.....	1,506	1,593	41	521	888	782	868	760	607	564
1998.....	.....	1,579	1,649	41	545	920	810	908	805	642	599
1999.....	.....	1,654	1,751	41	567	945	825	993	831	658	615
2000.....	.....	1,745	1,871	41	584	998	901	1,049	858	670	613
2001.....	.....	1,842	1,971	41	613	1,044	927	996	932	701	654
2002.....	.....	2,243	2,051	42	697	1,286	1,148	1,319	961	697	705
2003.....	.....	2,201	2,092	41	733	1,346	1,262	1,384	953	775	743

¹ Includes annuities to parents. Fiscal year 2003 total includes one annuity to parents averaging \$823. Cumulative total includes 3,508 annuities to parents.

NOTE.--Cumulative figures reflect adjustments not made in yearly data, but average amounts for each year include effects of changes in rates made by the end of the year.

Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2003, by class and state
(Amounts in thousands)

State ¹	Total		Retirement benefits ²		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Alabama.....	12,200..	\$12,210	8,900	\$9,140	3,300	\$3,070
Alaska.....	200.	198	200	148	100	50
Arizona.....	13,500	12,733	10,500	9,917	3,000	2,816
Arkansas.....	11,600	12,186	9,000	9,736	2,600	2,450
California.....	43,100	39,947	32,400	30,324	10,800	9,622
Colorado.....	10,000	9,966	7,400	7,566	2,600	2,400
Connecticut.....	3,900	3,771	2,800	2,812	1,100	959
Delaware.....	2,200..	2,302	1,600	1,689	600	613
Washington DC.....	800	604	600	424	300	180
Florida.....	40,900	39,005	31,800	30,816	9,000	8,188
Georgia.....	19,300	19,418	14,600	15,088	4,700	4,330
Hawaii.....	300	192	300	147	100	45
Idaho.....	6,000	5,992	4,700	4,719	1,300	1,274
Illinois.....	48,800	46,304	37,300	35,601	11,500	10,703
Indiana.....	21,600	21,345	16,300	16,311	5,300	5,034
Iowa.....	12,300	11,690	9,400	8,871	2,900	2,819
Kansas.....	18,500	18,535	14,500	14,600	4,000	3,936
Kentucky.....	19,200	19,385	14,600	15,048	4,500	4,336
Louisiana.....	10,500	10,414	7,800	7,822	2,700	2,593
Maine.....	4,200	4,055	3,100	3,025	1,100	1,030
Maryland.....	13,200	12,808	9,700	9,487	3,500	3,321
Massachusetts.....	6,500	5,754	4,700	4,106	1,800	1,649
Michigan.....	19,800	19,292	15,400	15,043	4,400	4,249
Minnesota.....	22,000	20,801	16,800	15,938	5,100	4,863
Mississippi.....	8,000	7,874	6,100	6,083	2,000	1,791
Missouri.....	25,600	24,470	19,400	18,823	6,100	5,647
Montana.....	8,000..	8,098	6,300	6,296	1,800	1,802
Nebraska.....	14,000	14,363	11,000	11,377	3,000	2,986
Nevada.....	4,600.	4,427	3,600	3,513	1,000	913
New Hampshire.....	1,200	1,082	900	779	300	303
New Jersey.....	13,100	12,647	9,500	9,279	3,700	3,368
New Mexico.....	6,300	5,969	4,800	4,539	1,500	1,430
New York.....	31,300	30,217	22,600	22,632	8,600	7,585
North Carolina.....	13,300	13,002	9,900	9,952	3,400	3,050
North Dakota.....	4,300	4,352	3,300	3,312	1,000	1,040

See footnotes at end of table.

**Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2003, by class and state
(Amounts in thousands) - Continued**

State ¹	Total		Retirement benefits ²		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Ohio.....	40,300	\$39,041	30,000	\$29,069	10,300	\$9,972
Oklahoma.....	6,800	6,625	5,100	5,051	1,700	1,574
Oregon.....	11,600	11,313	8,900	8,772	2,700	2,541
Pennsylvania.....	54,100	52,852	38,800	37,954	15,400	14,898
Rhode Island.....	800	731	600	515	300	215
South Carolina.....	8,100	8,283	6,100	6,386	2,100	1,898
South Dakota.....	1,700	1,558	1,300	1,178	400	380
Tennessee.....	15,500	15,262	11,400	11,474	4,100	3,787
Texas.....	42,800	42,567	32,200	32,413	10,500	10,153
Utah.....	7,500	7,430	5,700	5,583	1,800	1,846
Vermont.....	1,300	1,126	900	795	400	330
Virginia.....	23,500	23,726	17,500	18,042	6,100	5,683
Washington.....	15,300	14,964	11,900	11,692	3,400	3,272
West Virginia.....	13,300	13,152	9,800	9,722	3,500	3,430
Wisconsin.....	14,300	13,380	11,000	10,223	3,300	3,157
Wyoming.....	4,000	4,149	3,100	3,265	900	884
Outside United States:						
Canada.....	3,700	2,226	2,500	1,270	1,300	956
Mexico.....	500	311	200	147	200	164
Other.....	900	708	500	404	400	304
Total.....	756,200	\$734,810	568,900	\$558,923	187,300	\$175,887

¹ State of residence of beneficiary on September 30, 2003.

² Includes 129,200 supplemental annuities to employees receiving regular annuities. In a relatively small number of cases, employees were also receiving spouse or widow(er)'s benefits.

NOTE.--Retirement benefits include regular and supplemental employee annuities, spouse annuities and divorced spouse annuities. Survivor benefits include annuities to aged and disabled widow(er)s, widowed mothers and fathers, remarried and divorced widow(er)s, children, parents, survivor (option) annuities, and widow(er)s annuities temporarily being paid at spouse annuity rates pending final adjudication of survivor annuities. Benefit amounts exclude social security payments to dual beneficiaries.

Table 8.-- Principal administrative data for the unemployment and sickness benefit programs, benefit years 1998-1999 through 2002-2003

Item	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Qualified employees.....	272,400	278,200	277,400	269,900	259,100
Maximum daily benefit rate.....	\$44	\$46	\$48	\$50	\$52
UNEMPLOYMENT BENEFITS					
Net amount of benefits paid (thousands)	\$31,565	\$35,620	\$43,008	\$47,383	\$45,614
Payments:¹					
Number.....	80,800	83,300	96,100	103,600	96,700
Average amount per two week claim period.....	\$386	\$399	\$415	\$429	\$449
Beneficiaries.....	12,600	13,700	16,700	17,800	15,400
Applications received.....	15,800	17,500	20,100	22,000	18,300
Claims received.....	97,900	101,400	118,800	128,500	116,400
Normal benefit accounts exhausted.....	2,000	2,100	2,200	2,700	2,900
Non-compensable waiting period only²..	200	(3)	(3)	(3)	(3)
SICKNESS BENEFITS					
Net amount of benefits paid (thousands)	\$34,642	\$40,499	\$49,512	\$50,904	\$49,891
Payments:¹					
Number.....	145,200	151,300	163,200	168,400	160,700
Average amount per two week claim period.....	\$394	\$406	\$426	\$445	\$461
Beneficiaries.....	20,600	22,000	23,000	23,000	22,400
Applications received.....	26,300	27,100	28,700	28,100	27,900
Claims received.....	169,000	175,900	189,000	194,000	185,700
Normal benefit accounts exhausted.....	3,900	4,100	4,500	5,100	4,700
Non-compensable waiting period only²..	200	100	100	100	100

¹ Not adjusted for recoveries or settlements of underpayments.

² Prior to the October 1996 legislation, no benefits were payable for the first claim in a benefit year, generally resulting in a 2-week waiting period. As a result of the legislation, benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year.

³ Less than 50.

NOTE.--Data covered program activities during the year, regardless of when unemployment or sickness occurred.

Table 9.--All employees, new entrants, employees qualified for RUIA benefits, and related data, by employer, 2002

Class or name of employer	All employees				New entrants		Creditable Compensation (thousands)		
	Total	With 12 months of service in 2002	With sufficient service for RRA annuity	Qualified for RUIA benefits	Total	Qualified for RUIA benefits	Tier I	Tier II	RUIA
CLASS OF EMPLOYER									
Class I railroads	207,350	166,199	168,008	198,079	7,349	4,541	\$10,324,302	\$9,663,176	\$2,477,881
Class II railroads	7,398	5,622	5,483	6,777	402	192	310,280	297,672	83,685
Class III railroads	35,549	27,571	24,225	32,843	2,830	1,577	1,737,533	1,594,607	409,841
Switching and terminal companies	5,656	4,042	4,069	4,979	404	165	225,258	216,644	61,238
Car-loan companies.....	1,968	1,507	1,676	1,831	74	41	85,256	80,946	22,671
Miscellaneous employers¹.....	4,899	3,766	3,249	4,307	430	221	251,389	217,500	53,491
Total.....	262,820	208,707	206,710	248,816	11,489	6,737	\$12,934,018	\$12,070,545	\$3,108,806
SELECTED EMPLOYERS									
Burlington Northern and Santa Fe Ry. Co.....	43,251	35,847	37,849	42,026	1,130	751	\$2,268,280	\$2,104,189	\$528,606
Canadian National, U.S. Operations									
Chicago Central and Pacific Railroad Co.....	305	249	241	299	3	1	15,181	13,998	3,714
Duluth, Winnipeg and Pacific Railway Co.....	199	161	173	196	.....	.....	11,535	10,431	2,432
Grand Trunk Western Railroad Incorporated.....	1,923	1,497	1,700	1,834	26	19	102,625	94,573	22,827
Illinois Central Railroad Company.....	3,561	2,753	2,648	3,397	232	198	196,428	176,412	42,147
Sault Ste. Marie Bridge Company.....	65	43	65	58	.....	.....	2,796	2,653	701
Wisconsin Central LTD.....	1,870	1,490	1,622	1,825	6	2	99,855	91,695	22,792
CSX Transportation Incorporated.....	37,935	29,425	28,818	36,172	1,807	1,438	1,825,241	1,735,052	448,405
Kansas City Southern Railway Company.....	2,824	2,230	2,040	2,595	243	86	136,453	129,640	32,830
IC & E - Kansas City Southern Joint Agency.....	158	122	116	150	10	7	7,196	7,013	1,803
National Railroad Passenger Corp. (Amtrak).....	25,730	19,887	19,706	24,557	647	410	1,109,776	1,063,616	301,491
Norfolk Southern Corporation.....	31,957	25,813	26,272	30,074	1,085	486	1,540,765	1,462,612	379,183
Soo Line Railroad Company.....	3,148	2,466	2,675	3,018	130	77	147,187	140,771	37,551
Union Pacific Railroad Company.....	54,424	44,216	44,083	51,878	2,030	1,066	2,860,984	2,630,521	653,399

¹ Includes labor organizations, lessor companies, employer associations and miscellaneous carrier affiliates.

NOTE.--Tier I compensation excludes miscellaneous compensation taxable at the tier I tax rate.